103

H.R. 4245, H.R. 4275, AND OTHER BILLS TO RESTORE THE LONG-TERM SOLVENCY OF SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

SEPTEMBER 27, 1994

Serial 103–103

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CONTENTS

WITNESSES

SUBMISSIONS FOR THE RECORD

H.R. 4245, H.R. 4275, AND OTHER BILLS TO RESTORE THE LONG-TERM SOLVENCY OF SOCIAL SECURITY

TUESDAY, SEPTEMBER 27, 1994

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met, pursuant to call, at 1 p.m., in room B–318, Rayburn House Office Building, Hon. Andrew Jacobs, Jr. (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
TUESDAY, SEPTEMBER 13, 1994

PRESS RELEASE #15
SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE ANDY JACOBS, JR. (D., IND.), CHAIRMAN, SUBCOMMITTEE ON SOCIAL SECURITY, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON H.R. 4245, THE SOCIAL SECURITY LONG-RANGE SOLVENCY ACT OF 1994; H.R. 4275, THE SOCIAL SECURITY ENTITLEMENT REFORM AMENDMENTS OF 1994; AND OTHER BILLS TO RESTORE THE LONG-TERM SOLVENCY OF SOCIAL SECURITY

The Honorable Andy Jacobs, Jr. (D., Ind.), Chairman, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a hearing on H.R. 4245, the Social Security Long-Range Solvency Act of 1994; H.R. 4275, the Social Security Entitlement Reform Amendments of 1994; and other bills to restore the long-range solvency of Social Security. The hearing will take place on Tuesday, September 27, 1994, in room B-318 of the Rayburn House Office Building, beginning at 1:00 p.m.

BACKGROUND:

The 1994 Report of the Board of Trustees of the Federal Old-Age, Survivors and Disability Insurance (OASDI) Trust Fund warned that while the OASDI trust fund met the 10-year, short-range solvency test, it failed the 75-year, long-range solvency test. Moreover, under intermediate assumptions, the OASDI trust fund was predicted to become insolvent in the year 2029. Though the combined OASDI trust fund's annual revenues under intermediate assumptions were predicted to exceed annual costs until the year 2013, increasing annual deficits were predicted each year thereafter.

Several bills have been introduced to bring the Social Security system back into long-range balance. Each bill uses different means of creating savings in the program or enhancing its revenues, but none dramatically alters the basic features of Social Security and all maintain the protection offered by Social Security to workers and their families.

The Social Security Long-Range Solvency Act of 1994 (H.R. 4245), introduced by Mr. Rostenkowski (D., Ill.), would restore the financial health of the Social Security system through a combination of benefit changes and revenue increases. H.R. 4245 would adjust the benefit formula for average and high-income workers, accelerate the increase in the retirement age scheduled under current law, make a one-time reduction in the cost-of-living adjustment (COLA), cover new workers, subject a larger portion of benefits to income taxation, and increase the payroll tax rate once the baby boom generation retires.

The Social Security Entitlement Reform Amendments of 1994, (H.R. 4275), introduced by Mr. Pickle (D., Tex.), also seeks to close the long-range financing gap. It would close the deficit by raising the age at which full benefits are paid from age 67 (the age to which the retirement age is scheduled to rise under current law) to age 70; making the COLA biennial; and adjusting benefits for spouses.

Mr. Penny (D., Minn.) and Ms. Margolies-Mezvinsky (D., Pa.) have introduced two bills to restore solvency to the Social Security program. The Social Security Eligibility Act of 1994 (H.R. 4372) would raise the retirement age for full benefits from age 67 to age 70 and would raise the age for early retirement from age 62 to age 67. The Social Security COLA Limitation Act of 1994 (H.R. 4373) would limit the COLA for most beneficiaries to a flat dollar amount rather than a percentage increase.

FOCUS OF THE HEARING:

The hearing will focus on proposals which seek to improve the long-range financial health of the Social Security trust fund while retaining the basic features and protections of the program. Witnesses are

encouraged to comment on specific provisions of these bills or on other options for improving the solvency of the system without eliminating its broad protections for workers at all income levels.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Harriett Lawler, Diane Kirkland, or Karen Ponzurick [(202) 225-1721] no later than the close of business Tuesday, September 20, 1994. The telephone request should be followed by a formal written request to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Social Security will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff [(202) 225-9263].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE MINUTE RULE WILL BE STRICTLY ENFORCED. Chairman Jacobs advises witnesses that they will be allowed no more than two "finally's" and one "in conclusion." Chairman Jacobs further advises witnesses that the shortest testimony presented to the Subcommittee will receive a silver dollar and the runner-up a Kennedy half-dollar. The Congressional Budget Office and similar U.S. Government agencies may be granted an exception to these restrictions. The full written statement of each witness will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements to the Subcommittee on Social Security office, room B-316 Rayburn House Office Building, by noon Friday, September 23, 1994. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business Tuesday, October 11, 1994, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B-316 Rayburn House Office Building, before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

* * * * *

Chairman JACOBS. We will convene the hearing on long-term solvency for the U.S. Social Security system, and we are privileged to have as our first witness Hon. Dan Rostenkowski, who knows more about the Ways and Means Committee than I ever will.

Mr. Chairman, would you mind if Mr. Bunning made his opening statement first?

Mr. BUNNING. Mr. Chairman, thank you very much for holding this hearing. No subject can be more deserving of this subcommittee's attention than the subject we are dealing with today—the long-term solvency of the Social Security system.

Last month when Congress passed, and the President signed, legislation making the Social Security Administration an independent agency, thank God, we took a major step toward strengthening the Social Security program and restoring public confidence in it. Now we must start working to follow up on that progress by making sure that the newly independent Social Security Administration has the resources it needs.

I saw a report on television the other day about a poll taken among young men and women who are just entering the work force—young people they are calling generation X. I think that poll pretty well summarizes the problem we face here today. The poll indicated that nearly 50 percent of those young people believed in UFOs, yet fewer than 10 percent of them believed that Social Security will be there when they need it.

That is the problem we have to address, the problem of public confidence in the program, and we have a responsibility to take whatever steps are necessary to ensure that Social Security is indeed there when the young people who are entering the work force today are ready to retire. We have a responsibility to do whatever is necessary to restore and maintain public confidence in the program. Hopefully, this hearing today will set that progress in motion.

Mr. Chairman, I request that my written statement be submitted for the record and I am anxious to hear Hon. Dan Rostenkowski.

[The prepared statement follows:]

Statement of the Honorable Jim Bunning

September 27, 1994

I thank the Chairman for holding this hearing. As we have learned over and over, the future of the Social security system is an issue of great concern to every American -- the 138 million workers paying into it, as well as the 40 million individuals receiving benefits.

I also want to take this opportunity to commend the gentleman from Texas, Mr. Pickle, who was the first Chairman of this Subcommittee, for all of his efforts on behalf of the Social Security system. He has worked tirelessly on Social Security issues for well over a decade, and has achieved much. His continuing concern for the well-being of the system is evident in the fact that he has taken the time and effort to introduce one last major social security financing bill before he retires this year. I thank him for appearing today to explain his bill, and I wish him well in the future. He will be greatly missed.

Mr. Chairman, Congress made dramatic changes to the Social Security system in 1977 and 1983. After each of these reforms, Congress declared that it had solved the long-range financial problems of the Social Security system. However, as the most recent Social Security Trustees' report indicates, the long-range financing of the Social Security is once again in doubt. Every time Congress claims to "save" the system -- as it did in '77 and '83 -- only to be faced a few years later with new evidence of another impending crisis, the public is understandably concerned.

Today's hearing on a long-term "solution" to Social Security financing is the first long-term "fix" that I have been involved in since coming to Congress in 1987 and joining the Subcommittee in 1990. Based on what I know about what Congress has done in the past, I believe that, while it is important for Congress to pass legislation which restores the long-term actuarial balance of the system, it seems to me that there is a danger in placing too much emphasis on long-range projections. The economic factors which drive these projections are notoriously inaccurate and hard to predict 25 years in the future, much less 75 years, which is the period the actuaries mean when they say "long term." In my view, Congress must also focus on underlying issues of what the system should be expected to provide. For example, is it realistic to expect that Social Security will continue to provide benefits at levels which represent most or all retirement income for many individuals based on a combined employer/employee contribution of 12.4 percent of wages?

Mr. Chairman, the overwhelming majority of Americans support the Social Security system. They do so because they support its goal of providing elderly Americans with a dependable source of retirement income toward which they have contributed. Yet, many of today's workers have no confidence that the program will be there for them. I believe that the future of the system is much more dependent on the continuing confidence and support of the public than on anything else, including measures of actuarial balance.

Unfortunately, public opinion polls also show that the American public does not know everything it should about Social Security. Certainly, lack of knowledge contributes to lack of confidence. According to one poll, only 3 percent of Americans believe that future Social Security benefits will increase more than the rate of inflation. In fact, according to the most recent projections of the Social Security Administration, benefits will not only increase, but, even adjusted for inflation, they will more than double over the next 75 years under the current system.

Mr. Chairman, I believe that those of us in Congress who are serious about Social Security must focus on two goals:

First, Congress must reassure current beneficiaries, many of whom are vulnerable to scare tactics because they are dependent on Social Security, that there is no threat to their benefits. The system is solvent in the immediate future, and benefits will continue to be paid. A number of special interest groups prey on public fear generated by reports of Social Security's long-term insolvency. Each new report of Social Security's ever-changing financial fortunes serves as fodder for direct-mail fund-raising tactics of these groups. Action needs to be taken to educate the public, so that groups that "demagogue for dollars" will no longer have an audience of frightened seniors to target for contributions to "save" Social Security.

Second, for future retirees, it is time to provide a basis for realistic expectations of the Social Security program against which they can determine their own needs for retirement income beyond what the system can provide them at that time. No one, including Congress, should make promises that the system may not be able to fulfill. In simple terms, people need to have an idea of what to expect from the program so that they can adequately plan and save for the style of retirement that they want.

SSA has stated that one of its main goals is to restore public confidence in the Social Security system. I commend that. Last month Congress passed HR 4277, which was signed into law, making SSA an independent agency. It adopted a provision from my bill, providing that SSA be headed by a commissioner, backed by a 7-member advisory board. As the Chairman knows, I fought hard for this independent, non governmental board because I believe that it will help restore the public's confidence in the system.

One of the board's mandates, which are spelled out in statute, is to increase public understanding of the Social Security system. The board will make sure that the public gets the information that it needs about Social Security to understand what they may expect from it. If the SSA had been doing more of this all along it may well have made it difficult - if not impossible for groups to "demagogue for dollars."

Mr. Chairman, there are undoubtedly many approaches to restoring long-term solvency for Social Security. I look forward to hearing about some of them this morning.

Chairman JACOBS. Mr. Chairman.

STATEMENT OF HON. DAN ROSTENKOWSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman, and thank you for holding today's hearings on H.R. 4245, my bill to restore the long-range solvency of the Social Security trust fund.

Social Security is our most successful social program. It has been enormously effective in reducing deprivation and poverty among the elderly. Without Social Security, half the elderly would be poor. With it, older Americans have a lower incidence of poverty than any other group in our society.

Yet many Americans are concerned about Social Security's future and, more specifically, whether Social Security will be there for them in their future. Baby boomers—and the generations which follow—fear that Social Security will no longer exist when it comes their time for retirement. These fears have been heightened by the dire predictions of doomsayers who are more interested in creating heat, in an effort to undermine the program, than shedding light on the situation.

The fact is that Social Security trust fund reserves are projected to be depleted in 35 to 40 years. Some opponents of Social Security have seized on this information to scare people. Some say the system will simply stop paying benefits in four decades. Others claim these projections prove that Social Security will require massive payroll tax increases for future workers. Both assertions are wrong, Mr. Chairman.

That is why I introduced a bill to show exactly what is necessary to restore long-term financial solvency to the Social Security system. It demonstrates that only modest adjustments in Social Security are necessary to preserve and protect it.

My legislation does not envision radical reform of the Social Security program. It does not institute means testing, which in my view would turn Social Security into a welfare program and is a bad idea. And it does not privatize the system, leaving workers at risk for their financial futures.

Instead, the bill makes modest adjustments to the Social Security program which will keep it healthy for 75 years and beyond. I think that is about as far as we can safely go, given the uncertainty of demographic and economic projections.

This legislation brings the Social Security system into balance through a combination of changes: About half through benefit changes and coverage improvements; and about half through payroll tax increases. It asks both current and future retirees to make a contribution toward preserving the system.

H.R. 4245 includes a number of proposals. It would phase in a change in the benefit formula over a 50-year period beginning after the turn of the century. It would speed up the rise in the retirement age to age 67. It would cover newly hired State and local government workers under Social Security and it would reduce the income thresholds for taxing 85 percent of Social Security benefits.

Finally, it would ask all current beneficiaries to make a contribution to the effort to preserve Social Security for their children and grandchildren through a one-time reduction of 0.5 percentage

points in the 1995 COLA. This is a reduction of only $3 a month, or $36 a year, for the average beneficiary. Given the generosity of the current program, where nearly every current beneficiary gets back much more than he or she put in, I do not think that is an unreasonable burden.

H.R. 4245 would raise revenue by implementing modest increases in the Social Security tax rate in the year 2020 and the year 2055.

Some will say there is no reason to change Social Security today, and there are some who say it is not wise to fix a leak in the roof until the entire house is flooded. Such counsel is irresponsible and will ultimately make the required repair job more difficult and more expensive.

I find reform today preferable to severe benefit cuts, staggering tax increases, or means testing in the future. Social Security remains strong because Americans of all political persuasions have reached a consensus every time the program needed to be adjusted. I believe this legislation offers a fair and balanced plan to ensure that future generations can rely on Social Security.

I hope this legislation will provide a starting point for a real debate on how best to meet the challenges faced by Social Security in the 21st century.

Thank you very much, Mr. Chairman.

Chairman JACOBS. Thank you.

Mr. Bunning, do you have any questions?

Mr. BUNNING. No, thank you, Mr. Chairman.

Chairman JACOBS. Good. I think we better just break now because we have a vote on. I apologize to Congressman Penny.

[Recess.]

Chairman JACOBS. I think we can resume. I know Jake Pickle is in town. I saw him on television this morning, on the floor. I assume that the two Members who are scheduled to testify next must be en route.

Mr. PICKLE. Mr. Chairman, I believe I am just going to go sit out there, if it is all right with you.

Chairman JACOBS. I think you would look great out there, Jake. I am serious.

Our next witness is Hon. J.J. Jake Pickle from Texas, and in a very real sense, from God. And I don't say that because you once worked for L.B.J.

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PICKLE. Well, Mr. Chairman, I want to thank you for holding this hearing. You and Mr. Bunning have been very amenable to discussions about what we are going to do about Social Security in the future. I think this meeting is timely and it gives the American people a chance to see some of the proposals and start thinking about a problem we must correct in the time to come. So I commend you for that.

Now, may I revise and extend my remarks?

Chairman JACOBS. In any other case, I would say yes, but you are so interesting, Jake. Without objection.

Mr. PICKLE. I am going to submit the whole report anyway.

Now, Mr. Chairman, on April 11 of this year the board of trustees of the Federal old-age, survivors and disability insurance fund released its annual report. This report should be required reading for all Members because it details the financial condition of the largest single part of our country's domestic spending program, by far the largest. More importantly, it documents that Social Security, our largest entitlement program, faces a large and growing long-term deficit. I want to emphasize long-term deficit.

According to the trustees' report, the program's deficit has now risen to 2.13 percent of our Nation's total taxable payroll over the next 75 years. That is the measurement. This means that projected expenditures now exceed expected revenues by an amount equal to 2.13 percent of the total payroll which is subject to the OASDI payroll tax.

To give you an idea of the size of this deficit, if we were to eliminate it through higher taxes alone, we would have to increase the employee and employer share of the FICA payroll tax by almost 1.06 percent each immediately, which in 1995 alone, 1 year, in 1995 alone would increase the total tax burden by about $59 billion. That is an astounding figure. If we were to put this higher tax rate in place for the next 75 years, the increased tax burden on workers and businesses would be staggering.

This projected deficit is not just a statistical fluke or transitory problem. According to the Social Security trustees and the Office of the Actuary, the program has not been in close actuarial balance for several years. This is in contrast to 11 years ago, when the trustees and actuaries told us that the system was in longrun balance. What has changed since then? Well, let me list two or three reasons why, and it was not because the bill we passed in 1983 was not an appropriate bill. It was the right bill and has worked properly. But three things, basically, have happened.

First, the economy has slowed down. It is not much slower than from our projections, but it has still slowed down a little more than predicted. In 1983 it was assumed that wages would grow annually by 1.5 percent more than prices. Today, based on the slower economic growth of the 1980s, the trustees are assuming that wages will grow by only 1.1 percent more than prices each year. That is one reason. Second, the Nation's birthrate continues at a lower rate than was projected. Instead of the 2.1 births per woman, which was assumed in 1983, the trustees now predict that the birthrate will be only 1.9 births. This means that there will be fewer workers contributing to the system than had been projected in the past. Finally, over the past decade the number of people filing for and receiving Social Security disability benefits has substantially exceeded the projections in 1983. Because of this higher incidence of disability over the past decade, the trustees have raised the projected future cost of the disability program accordingly, and it is very high. It is the highest, fastest-growing drain, we will say, if that is the word, on the Social Security program that we have today.

So these and other smaller changes have gradually altered the longrun outlook for the system since we fixed it in 1983. So now, instead of remaining solvent through 2060, the program faces insol-

vency by 2029. Therefore, it is now obvious to all that significant changes need to be made to address the program's growing deficit.

Now, I want to repeat to you, Mr. Chairman, what we did in 1983 was correct. It has worked well. But the economy has not performed just exactly like we thought. Women are having slightly fewer babies, and there has been a heavier influx on the disability program. Those are the main reasons why we need to make corrections. And again I say, 2.13 percent of the taxable payroll deficit is a sizable sum, so we better get at it now.

It is for that reason that I have introduced legislation today, H.R. 4275, which would make several fundamental long-term changes to the program, and the major provisions would be basically, let me list just a few of them.

First, I would gradually raise the age of normal retirement from 67 to 70, while continuing to allow for early retirement at age 62.

Second, I would award cost-of-living adjustments on a biannual basis except in years of high inflation, with COLAs to be made in July rather than in January.

Third, I would extend Social Security coverage to newly hired State and local employees.

And fourth, I would reduce the spousal benefit from 50 to 33 percent of the covered worker's benefits.

All these provisions would be gradually phased in beginning in the year 2000 and would not fully be effective until the year 2022. None of these changes would significantly affect current retirees or those workers who are now near retirement. But the bill would over time reduce total expenditures by 2.12 percent of taxable payroll, an amount almost exactly equal to the current projected deficit.

So my approach would balance the funds exactly almost to the dollar, as best as we can tell, the amount of money they estimate as the projected deficit.

In proposing these changes, I deliberately chose not to include any tax increase or make any change which would have an immediate impact. I did this to avoid any impression that these proposals were being made for budget reasons. I took this approach so that the bill would focus exclusively on the long-term problem we face in our Social Security entitlement program. We must make decisions now on how to responsibly finance a benefit structure which meets the retirement income security needs of workers in our country. I think this is important because there is currently a great deal of public discussion about potential changes in the Social Security programs, and you will be hearing from others today.

For example, there are those who believe that older, wealthier Americans ought to be called on to bear a greater part of the burden in reducing the Federal deficit. To accomplish this end, they would means test and cut Social Security and Medicare benefits in order to help balance the Federal budget. While it may well be that additional sacrifices by today's older Americans will be necessary as part of a well-balanced trend to solve our Federal budget deficit, in my opinion making immediate reductions in their benefits is not the best way to accomplish this goal. It is important to note that with regard to Social Security, the trust funds are currently running large surpluses and are not contributing to the Federal deficit.

Therefore, there is no reason to frighten the elderly with the prospect of reducing their COLAs or means testing their benefits. Likewise, there is no reason to impose the enormous administrative burden of means testing on the already strained Social Security Administration that would inevitably result if means testing were imposed; nor should we allow inflation to erode the benefits of the oldest and poorest Social Security beneficiaries in our effort to balance the budget. If we wish to tax older, wealthier Americans, there are far more efficient and direct ways to accomplish this purpose.

In addition, others believe that our entitlement programs are growing too rapidly and that we must cut them back. Personally, I agree we must control the growth of entitlement programs or we will leave our children and our grandchildren with an impossible financial burden. That is why H.R. 4275 contains no tax increases. This bill would reduce the size of the Social Security entitlement program. I think this is most important because we will never be able to cut back on all the other entitlement programs if we do not take some action with respect to Social Security. Because Social Security is the flagship of all of our entitlement programs.

Finally, if we take action now to gradually raise the age of normal retirement, younger workers will have the opportunity over the next 30 to 40 years to make their own retirement plans based on their own work and savings. They will not be as dependent on Social Security and the Federal Government when they retire. In the meantime, their savings would be invested primarily in publicly traded securities which will help provide the capital our economy needs in order to grow.

While each one of these changes will certainly generate considerable discussions and perhaps even opposition, they are based on sound Social Security policy. In each case they are a response to the changing nature of our society and economy. If adopted in the near future and phased in gradually, our economy and society will absorb them with little or no disruption. If the reforms contained in H.R. 4275 are adopted soon, they will: One, put an end to the fears of the elderly that their benefits will be cut at a time when they can no longer increase their retirement savings; two, put an end to the growing cynicism younger workers have with respect to the long-term viability of the Social Security system; and, three, avoid the need to make more sudden and drastic changes in the future.

For all these reasons I would urge Members to begin to give this legislation and this issue serious consideration.

Now, Mr. Chairman, in conclusion, I would like to say my bill represents a long-term solution to a long-term financial problem facing Social Security. I have given a great deal of thought to this legislation. I have tried to present a carefully crafted legislative proposal for you to consider. However, I want to stress that in my judgment the details of this legislation are not as important as are the principles that have guided our considerations and our effort in advancing this legislation, and these are the principles I will leave with you.

One, the problems of Social Security are long range. Therefore, whatever the fix, it should not be driven by short-range budget

goals. We should not raise fears among today's elderly with short-term cutbacks, such as COLA freezes. Such changes will only lead to partisan sniping and legislative gridlock.

Two, the financial problems of Social Security should not be fixed with tax increases. The entitlement tax burden is already too great and younger workers will not tolerate and should not be asked to accept a greater tax burden for entitlement programs. Our younger people continue to believe that funds will not be in the Social Security trust fund when they are entitled to receive the benefits.

A story in the Washington Post indicated today this very thing, that the young do not believe their benefits are secure. You can give them all the proof in the world, and then you ask them, "Now do you believe?" and they still do not believe. So we have a problem with our young people in getting them to believe what we are proposing is correct.

Three, Social Security changes should be phased in gradually over many years so that current workers and employees can adjust their own retirement programs accordingly.

Four, we should not means test Social Security or allow workers to opt out of the program. Social Security has been a success because it is a universal, completely portable retirement program for all Americans. It is not a program for the rich or the poor or for civil servants or veterans or farmers or factory workers. It is a program for all working Americans. We all have an equal stake in its success and we all must bear the burden for its support. If this principle is ever ignored, I think the program would be destroyed.

Now, Mr. Chairman, that concludes my remarks to you and I will be happy to make any comments or answer any questions. I know you have other witnesses, but I appreciate being allowed to give the testimony.

Chairman JACOBS. Before we proceed, the committee would like to say for the record that we are pleased that the former Commissioner of Social Security, Dorcas Hardy, is with us today.

And Mr. Bunning will inquire.

Mr. BUNNING. Thank you.

Just a couple of observations, Mr. Pickle. You will soon be in a position of being an elder statesman. In other words, you will be able to raise difficult questions without being directly responsible for solving the problems.

Your bill is attractive because it does not include any increase in taxes. It does contain benefit reductions for future beneficiaries. Because even under the current structure, future beneficiaries will in fact pay more and get less, overall.

How do you propose to make the concept of even smaller benefits acceptable to those who think the benefits are not going to be there maybe in the future?

Mr. PICKLE. Well, we do that because I think it is the responsible thing to do. I do not think we can paint a picture that you do not have to raise taxes or make sacrifices. I think some changes should be made.

I did not go into all the details of the bill because some of those kind of changes are relatively minor. I hesitate to use that word, but they are not as critical—the principle involved is right.

I do know we make some changes and we do make some cuts in COLAs by delaying them. We do cut back some benefits because I think it is the right thing to do. You have to do some of that. Otherwise, you are trying to paint a rosy picture when that is not the truth.

Mr. BUNNING. What I am trying to say, Jake, is, how can we sell this to those who are going to be contributing now to pay current benefits, knowing full well that when they start to collect their benefits, obviously, they are going to get less than they contributed?

Mr. PICKLE. Well, that has not been the case at all in years past, but it reaches the point now where that may change. The legislating job is going to be left to you and to this committee and not so much to me.

I will admit there will be some changes in the form of the proposal. I recognize that. But they are not major.

The points I have outlined, no increase in taxes, no cuts in COLAs—delay them but no big cuts—and would all go into effect later. We did this phasein approach in 1983 and that is why the program has been so enormously successful and I think you can follow in the same pattern.

Mr. BUNNING. Last, in 1983, Congress came up with a solution to Social Security financing problems which included a payroll tax increase. It was going to be a permanent, long-term solution. You are proposing to do some things differently this time.

Mr. PICKLE. But not raise taxes.

Mr. BUNNING. But the long-term solution became a very short-term solution rather than long-term because of the things that you outlined in your testimony.

Mr. PICKLE. Not because the bill was incorrect or that we did not make the right decision at the time. I think we did the right thing and it has worked that way. It has been the most successful program we have had in the last 12 years by far.

I do not think, though, that we can raise taxes again. I just think you are going to reach a point where employers and employees are going to say, "No more taxes."

Mr. BUNNING. I am not proposing to do that. I am proposing that maybe we should look at some other types of solutions rather than cutting the COLAs. Maybe we should look at what percentage of wages benefits should replace for future retirees.

Mr. PICKLE. That is something this committee will have to take under consideration, but I think we have a pretty good balance relative to the approximate 42 percent replacement. It has been pretty well established, and I think that probably should be maintained, but it is something the committee will have to look at in the future.

But I want to say again, we do not cut in my bill COLAs. We do delay them and put them on a biannual basis, unless you have a heavy inflation year in 1 year.

Mr. BUNNING. I do want to commend you for all the work you have done on Social Security. I know it has been one of the main points in your service here in the Congress, and I congratulate you for that.

Mr. PICKLE. Well, I thank you, Mr. Bunning.

Let me add I have an interest in it because I was the chairman of this subcommittee, working with Mr. Jacobs when we passed the bill. It has been an enormously successful program but we do know we are running at a 2.1 percent of payroll long-term deficit. We do know in a few years' time that that will be an enormous amount of money. We do know that in today's dollars, by the time this program would start to go into effect, we would be making savings of around $50 billion a year.

Now, that is a reduction in Social Security benefits, but, Mr. Bunning, that is an attempt to make some correction in our entitlement program of Social Security. You cannot cut the entitlements or cut or shave them or readjust to them in any other category much if you cannot do it in Social Security. I think we should admit it and try to do something about it.

I am going to provide for the record a lot of the section-by-section analysis of this bill. That gets into the area you are talking about, because you will have to look at it in this committee. But these are the principles I wanted to establish with you today.

[The section-by-section analysis follows:]

Summary of Provisions in HR 4275

Section 1	Short Title
Section 2	Gradual increase in the retirement age to age 70 by the year 2029 -- This provision would raise the normal retirement age from age 65 for persons who reach age 62 before the year 2000, by 2 months for each year after 1999 the a person reaches age 62 with the ultimate normal retirement age of 70 for those who reach age 62 in 2029 or later.
Section 3	Reductions in benefits for early retirement -- This provision would modify reduction factors for retired-worker beneficiaries, aged-spouse beneficiaries, and widow and widower beneficiaries. This provision reflects the longer period of actuarial reduction in benefits that would occur as the result of continuing to allow early retirement at age 62 while raising the age of normal retirement to 60.
Section 4	Repeal further increases in the Delayed Retirement Credit -- This provision would hold the delayed retirement credit (DRC) at 4.5 percent per year , and eliminate further scheduled increases to 8 percent.
Section 5	Permanently establish age 65 as the conversion age from Disability to Old-Age Retirement benefits -- This provision would provide for the disabled worker provision to occur at age 65, and would further provide that the percentage of PIA payable to newly entitled beneficiaries after 1999 would be equal to the percentage of PIA payable to retired-worker beneficiaries newly entitled to benefits in the same year.
Section 6	Phased reduction in spousal benefits other than survivors benefits to one-third of the primary insurance amount -- This provision would gradually reduce the spousal benefit from 50 percent of the primary insured amount of the insured worker prior to the year 2000 to 33' percent after the year 2015.
Section 7	Coverage of State and Local employees hired after 1999 -- This provision would require all State and Local employees hired after 1999 to be covered under Social Security. The provision allows those employees who continue their current employment to retain their exclusion from coverage, and provides for allowable breaks in service, and continuation of service with multiple agencies and instrumentalities.

Section 8	Repeal the limitation on drop out years for disabled workers -- This provision would provide 5 drop out years for all disabled worker beneficiaries regardless of age as opposed to the current law provision which reduces the number of drop out years for beneficiaries under age 47. A minimum of 2 computation years would continue to be required.
Section 9	Make cost-of-living-adjustments (COLA) payable in July and effective on a biennial basis -- This provision would, beginning in the year 2000, provide that the current December COLA be delayed until the following July and that it be paid biennially, reflecting 2 years of increase in the CPI, unless the increase over the 1 year since the previous COLA exceeds 4 percent.
Section 10	Repeal the limitation on widow(er)s benefits for early retirement of the deceased spouse -- Under present law, a widow(er) benefit may be reduce by the reduction that was applicable to the retired worker benefit of the deceased spouse, but not to less than 82.5 percent of PIA. This provision would repeal the reduction for persons reaching early retirement age (60) after 1999.
Section 11	Adjustment in reduction of widow's and widower's benefits upon attaining 85 or more years of age after 2019 -- This provision reduces the current law adjustment in widow's and widower's benefits upon their attaining 85 or more years of age.
Section 12	General increase in benefits for individuals attaining age 85 after 2019 -- This provision would provide an increase in benefits for individuals reaching age 85 and over beginning in the year 2015. Benefits for such individuals would be raised above the level payable in the absence of this provision by 1 percent in 2015, 2 percent in 2016, with the amount increasing by 1 percent per year until it reached 5 percent in 2019 and later years.
Section 13	Increase in surviving child's insurance benefits This provision would increase the percentage of PIA payable to a surviving child from 75 percent to 80 percent of benefit entitlement for months in the years 2000 through 2009, 85 percent for 2010 through 2024, and 90 percent for 2025 and later.
Section 14	Gradual reduction in age necessary for SSI benefits on the basis of age -- This provision would gradually lower the age for receipt of SSI benefits on the basis of age from 65 to 62, with a phase in period beginning in the year 2000 and ending in 2011.

Chairman JACOBS. Mr. Crane, do you have any questions for Mr. Pickle?

Mr. Crane.

Mr. CRANE. I have no questions. I just want to commend Jake, and add to what Jim said about Jake's commitment. We are going to miss you.

Mr. PICKLE. Thank you, Mr. Crane.

Chairman JACOBS. Mr. Houghton.

Mr. HOUGHTON. I echo that, both the comments of Mr. Bunning and Mr. Crane.

Mr. PICKLE. Thank you, Mr. Houghton.

Chairman JACOBS. Thanks, Jake. We are grateful to you for being at this hearing.

Mr. PICKLE. Thank you.

Chairman JACOBS. And to you, Congressman Penny and Congresswoman Margolies-Mezvinsky, front and center.

Congresswoman, I think that that television camera says CBS on it, and I know you have always been affiliated with NBC. Do you have any objection?

Ms. MARGOLIES-MEZVINSKY. None whatsoever, Mr. Chair, but thank you for asking.

Chairman JACOBS. Mr. Penny.

STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. Mr. Chairman, thank you. The arrangement is that I will give the presentation and Marjorie will answer the questions.

Chairman JACOBS. Very good.

Mr. PENNY. That was the deal, wasn't it?

Mr. Chairman, I would like to thank you and the members of this subcommittee for the opportunity to present our bills. The hearing demonstrates that the projected shortfall in the Social Security trust fund is being taken seriously. I hope we have the wherewithal to follow through with much needed reforms before the trust fund is on the brink of collapse. The longer we wait to address the problem, the tougher the fix will have to be. We cannot afford the luxury of shortsightedness.

Congresswoman Margolies-Mezvinsky and I have introduced the Social Security Solvency Acts, a package of four bills that would ensure the solvency of the Social Security system long into the future. I believe the distinguishing factor of our legislation is that we ask every generation to contribute to the solvency of the program.

Current trends show that the return received on investments in the Social Security trust fund decreases dramatically with each successive generation. A person who retired 10 years ago recovered his or her contribution to the trust fund, plus interest, in about 4 years. It will take a person who retires today, however, an average of 16 years to collect their due.

By the year 2030, it will take the average retiree approximately 26 years to recover his or her contributions from the trust fund. It is not fair to further burden this generation of workers with excessive payroll increases for benefits that will never give them a full return on their investment.

Congressman Rostenkowski's proposed sacrifices, for example, fall disproportionately on future generations. I commend the former chairman for addressing the problem. I cannot support a solution, however, that gains nearly half of its savings from increasing the payroll tax on future generations.

To that degree, I find much to commend in the package just put forward by another colleague, Mr. Pickle. I think his formula comes much closer to addressing the fundamental problems of this program without resorting to higher taxes and without burdening any generation inequitably.

We have already relied too heavily on the highly regressive payroll tax. Workers in 1945, those collecting their Social Security benefits today, paid 1 percent in payroll tax, while workers today pay 7.65 percent of their income in Social Security taxes.

Congressman Rostenkowski would raise that tax rate to 9.6 percent. It is not fair for people to pay higher payroll taxes in exchange for fewer benefits. The solution is to reform the system so higher payroll taxes are not required of each successive generation.

We still have time to call upon all generations to share in the sacrifice. H.R. 4372 would accelerate the increase in the retirement age. Today Americans live at least 10 years longer than we did in 1935. It only makes sense that we ask recipients to work a little longer before drawing from the system. Under current law, the retirement age will reach age 67 in the year 2027. This is a consequence of an amendment Mr. Pickle offered to the Social Security reform package in 1983, in my very first year in Congress. My vote in support of that retirement age increase was one of the seminal votes of my tenure here.

Our bill would raise the retirement age by 4 months each year starting in 1999. It reaches age 67 by the year 2004 and continues to rise until it reaches age 70 by the year 2013. The early retirement age is also raised from age 62 to age 67 over that same time period.

Raising the retirement age gives us permanent savings that multiply each year. This bill would save 1.42 percent of taxable payroll and would alone go two-thirds of the way toward solving the long-term deficit in the Social Security program. Averaged over 75 years, this proposal would save $40 billion each year with the bulk of the savings obviously in the outyears.

H.R. 4373 would immediately limit the guaranteed annual cost-of-living adjustment. Few private sector pensions guarantee annual COLAs, and when pensions are increased, it is only after a careful assessment of available funds. There is no reason the Federal Government should guarantee a generous annual COLA to every senior citizen, rich and poor, while the program faces a long-term deficit.

We linked the COLAs to the consumer price index in the 1970s because conventional wisdom at that time held that wages increased more quickly than inflation. Therefore, it was theorized, cash flow to the trust fund would increase at a faster rate than the annual COLA. When inflation began to skyrocket, however, COLAs enjoyed a similar increase. At the same time, private sector wages have held steady, limiting cash flow to the trust fund. COLAs have only added to the spiraling cost of the Social Security program.

This bill is one of the fairest ways to limit Social Security expenditures while at the same time protecting those retirees most in need. Instead of a percentage increase, we would limit the annual increase to the COLA due the person at the 20th percentile level of benefits. Those below the 20th percentile would receive their usual COLA, the full COLA, and everyone above would receive the same dollar amount increase. This is a relatively painless way to shave a few dollars off everyone's benefits while protecting those at the lowest benefit levels.

This COLA reform provision would save 1.64 percent of taxable payroll and would go three-fourths of the way toward restoring balance to the Social Security system. Averaged over 75 years, it would save $46 billion each year, with $78 billion in savings in the first 5 years alone, and it would be a permanent benefit adjustment affecting today's retirees and their descendants equally.

Obviously, these two bills taken together would more than resolve the dilemma facing the Social Security system after the turn of the century. All these reforms would call on all generations to contribute to the solvency of the fund. These reforms would not require any tax increase to keep the funds solvent, and we would urge the committee to give serious consideration to these alternatives.

Other bills to be discussed today will be covered by my colleague from Pennsylvania, but, again, we believe very strongly that we cannot ignore the early warning signs that Social Security is in trouble. We can either act now or our children will pay a very heavy price later.

Chairman JACOBS. Marjorie.

STATEMENT OF HON. MARJORIE MARGOLIES-MEZVINSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Ms. MARGOLIES-MEZVINSKY. Thank you, Mr. Chair. I, too, would like to thank you and the members of the subcommittee for the opportunity to present our bills, the Social Security Solvency Acts of 1994.

I would ask that the entire text of my statement be entered into the record as well as some other articles that were written from my community to us, and Mr. Penny's community concerning these acts.

Chairman JACOBS. Without objection.

Ms. MARGOLIES-MEZVINSKY. As my very good friend from Minnesota has said, this hearing, indeed, demonstrates that the Social Security trustees' report is being taken seriously by this subcommittee and by Congress.

Mr. Chairman, when we held our conference on the future of entitlements in December in Pennsylvania, we began a dialog, a dialog committed to taking an honest and serious look at our entitlement programs. Along with the bipartisan Congressional Institute for the Future, we began this dialog in the name of our children's future, and equally as important, in the name of securing the very programs which define us as a great nation, a nation that cares about its elderly and cares about those that have been left behind, and in the name of securing the vitality of these programs which

have saved millions of Americans from poverty and preserved their dignity.

There were many who did not want us to begin this conversation, those who see danger when we move our Nation from what is politically popular to what is fiscally responsible. The trustees have said that Congress should take action now, not wait until it is too late. That is why Mr. Penny and I have decided to take this action now instead of passing an even greater problem on to the next generation, to our children.

Our plan calls for four specific proposals. Two Mr. Penny has just very eloquently described to you, and the second two which I will discuss.

In order for us to ensure the vitality of the Social Security system, we must restore truth in the way we talk about it. This will lead to a more informed and honest debate and result in better public policy. These next two proposals are designed to help us do just that.

One of the keys to reforming the system is to inform beneficiaries of just how much they have received in Social Security benefits compared to their contribution. Under current law, starting in 1995, a statement will be sent to all Americans upon reaching their 60th birthday comparing the amount of money they have already contributed to the Social Security system to the amount they can expect to withdraw from the system over their lifetime. And starting in the year 2000, every American above the age of 25 years will receive a statement like this annually until they begin to collect their Social Security benefits.

Our bill would send statements once a person starts to collect Social Security benefits. Instead of comparing contributions to estimated lifetime benefits, it would compare contributions to actual benefits received thus far.

The fourth and final bill in our package will begin to bring truth to the way we report the Social Security trust fund by requiring that the total budget reported only include onbudget items. The Federal budget has been less than truthful with the American people concerning the Social Security trust fund for all too long. We have been depleting the Social Security trust funds to pay the operating expenses of our Federal Government for quite some time.

You go to page 242 of your Federal budget historical tables, if you are interested at all, right here, you will see that we report the total onbudget and offbudget total. The total combines the on- and offbudget total and therefore masks the real budget deficit.

Mr. Chairman, these four proposals for the Social Security Solvency Acts of 1994 provide a reasonable solution to a very serious problem. By combining the necessary monetary adjustments and restoring truth to our discussion, we will address this important issue and we will start to address it now.

While some are once again proposing to raise payroll taxes to fix the system, our proposals contain no tax increases but modest adjustments to put the Social Security systems back on firm footing in a fair, equitable, and gradual manner. At our Future of Entitlements conference I said that we must be honest with the American people concerning these programs which are so important to all of us. We must also be honest with ourselves. Only a bipartisan effort

will enable us to enact real entitlement spending reforms. We must pace the issue—face it and pace it carefully so that the issue of entitlement spending now is faced so that our children do not have to pay the price of our lack of action. This is one step in a long journey toward that goal.

Thank you.

Chairman JACOBS. Thank you.

[The prepared statement and attachments follow:]

TESTIMONY OF
REP. MARJORIE MARGOLIES-MEZVINSKY
SOCIAL SECURITY SOLVENCY ACTS OF 1994

SEPTEMBER 27, 1994

MR. CHAIRMAN, I TOO WOULD LIKE TO THANK YOU AND THE MEMBERS OF THIS SUBCOMMITTEE FOR THE OPPORTUNITY TO PRESENT OUR BILLS, THE SOCIAL SECURITY SOLVENCY ACTS OF 1994. AND AS MY VERY GOOD FRIEND FROM MINNESOTA HAS SAID, THIS HEARING INDEED DEMONSTRATES THAT THE SOCIAL SECURITY TRUSTEES REPORT IS BEING TAKEN SERIOUSLY BY THIS SUBCOMMITTEE AND CONGRESS.

MR. CHAIRMAN, WHEN WE HELD OUR CONFERENCE ON THE FUTURE OF ENTITLEMENTS IN MONTGOMERY COUNTY BACK IN DECEMBER, WE BEGAN A DIALOGUE, A DIALOGUE COMMITTED TO TAKING AN HONEST AND SERIOUS LOOK AT OUR ENTITLEMENT PROGRAMS.

ALONG WITH THE BIPARTISAN CONGRESSIONAL INSTITUTE FOR THE FUTURE, WE BEGAN THIS DIALOGUE IN THE NAME OF OUR CHILDREN'S FUTURE, AND EQUALLY AS IMPORTANT, IN THE NAME OF SECURING THE VERY PROGRAMS WHICH DEFINE US AS A GREAT NATION, A NATION THAT CARES ABOUT ITS ELDERLY AND CARES ABOUT THOSE THAT HAVE BEEN LEFT BEHIND, AND IN THE NAME OF SECURING THE VITALITY OF THOSE PROGRAMS WHICH HAVE SAVED MILLIONS OF AMERICANS FROM POVERTY AND PRESERVED THEIR DIGNITY.

THERE WERE MANY THEN WHO DID NOT WANT US TO BEGIN THIS CONVERSATION. THOSE WHO SEE DANGER WHEN WE MOVE OUR NATION FROM WHAT IS POLITICALLY POPULAR TO WHAT IS FISCALLY RESPONSIBLE.

AS THIS SUBCOMMITTEE IS AWARE, AND AS WE MENTIONED BEFORE, IN APRIL OF THIS YEAR THE SOCIAL SECURITY TRUSTEES REPORTED, THAT UNLESS CONGRESS ACTS, THE SOCIAL SECURITY TRUST FUND WILL NOT BE ABLE TO MEET ITS COMMITMENTS IN 2029. THE TRUSTEES SAID THAT CONGRESS SHOULD TAKE ACTION NOW, NOT WAIT UNTIL IT'S TOO LATE. THAT IS WHY MR. PENNY AND I HAVE DECIDED TO TAKE ACTION NOW, INSTEAD OF PASSING AN EVEN GREATER PROBLEM ON TO THE NEXT GENERATION.

OUR PLAN CALLS FOR FOUR SPECIFIC PROPOSALS, TWO MR. PENNY HAS VERY ELOQUENTLY DESCRIBED TO YOU THAT ARE DESIGNED TO PROTECT THE SOCIAL SECURITY SYSTEM BY MAKING THE MONETARY ADJUSTMENTS NECESSARY TO ACHIEVE FINANCIAL SOLVENCY FOR THE PROGRAM; AND THE SECOND TWO, WHICH I WILL DISCUSES, DESIGNED TO CREATE AN ENVIRONMENT OF TRUTH IN OUR SOCIAL SECURITY SYSTEM.

IN ORDER FOR US TO ENSURE THE VITALITY OF THE SOCIAL SECURITY SYSTEM WE MUST RESTORE TRUTH IN THE WAY WE TALK ABOUT THE SYSTEM. THIS WILL LEAD TO A MORE INFORMED AND HONEST DEBATE AND RESULT IN BETTER PUBLIC POLICY AND A MORE SECURE AND SOLVENT SOCIAL SECURITY SYSTEM.

THESE NEXT TWO PROPOSALS ARE DESIGNED TO HELP US DO JUST THAT.

ONE OF THE KEYS TO REFORMING THE SYSTEM IS TO INFORM BENEFICIARIES HOW MUCH THEY HAVE RECEIVED IN SOCIAL SECURITY

BENEFITS COMPARED TO THEIR CONTRIBUTION. UNDER CURRENT LAW, STARTING IN 1995, A STATEMENT WILL BE SENT TO ALL AMERICANS UPON REACHING THEIR 60TH BIRTHDAY COMPARING THE AMOUNT OF MONEY THEY HAVE ALREADY CONTRIBUTED TO THE SOCIAL SECURITY SYSTEM TO THE AMOUNT THEY CAN EXPECT TO WITHDRAW FROM THE SYSTEM OVER THEIR LIFETIME. AND STARTING IN THE YEAR 2000, EVERY AMERICAN OVER 25 YEARS WILL RECEIVE A STATEMENT LIKE THIS ANNUALLY, UNTIL THEY BEGIN TO COLLECT SOCIAL SECURITY BENEFITS.

OUR BILL WOULD SEND STATEMENTS ONCE A PERSON STARTS TO COLLECT SOCIAL SECURITY BENEFITS. INSTEAD OF COMPARING CONTRIBUTIONS TO ESTIMATED LIFETIME BENEFITS, IT WOULD COMPARE CONTRIBUTIONS TO ACTUAL BENEFITS RECEIVED THUS FAR. THIS WOULD DEMONSTRATE THE SOUNDNESS OF A PERSON'S INVESTMENT, AS WELL AS PROVIDE A PARTIAL EXPLANATION FOR THE FINANCIAL TROUBLE THE SOCIAL SECURITY TRUSTEES REPORTED TO US IN APRIL.

OUR FOURTH AND FINAL BILL IN OUR PACKAGE WILL BRING TRUTH TO THE WAY WE REPORT THE SOCIAL SECURITY TRUST FUND. THE FEDERAL GOVERNMENT HAS BEEN LESS THAN TRUTHFUL WITH THE AMERICAN PEOPLE CONCERNING THE SOCIAL SECURITY TRUST FUND FOR TOO LONG.

IN 1967 THE GOVERNMENT RAN A $15.7 BILLION DOLLAR DEFICIT. AT THE SAME TIME, SOCIAL SECURITY TAX REVENUE WAS GROWING FASTER THAN PAYMENTS TO RETIREES. THE ANNUAL SURPLUS TOPPED THE ONE BILLION DOLLAR MARK FOR THE FIRST TIME IN 1966, REACHING $2.5 BILLION. AT THIS TIME "AT LEAST FROM OFFICIAL WASHINGTON'S VIEWPOINT, THE OVER SUPPLY OF SOCIAL SECURITY DOLLARS WAS OUTSIDE THE FEDERAL BUDGET."

"HOW BETTER TO MASK THE DEFICITS THAN TO MERGE SOCIAL SECURITY REVENUE AND EXPENDITURES FROM OTHER SO-CALLED TRUST FUNDS WITH GENERAL FUND REVENUE AND EXPENDITURES IN A SINGLE BUDGET?" THIS IS WHERE WE FIND OURSELVES TODAY.

AGAINST THAT BACKGROUND, IN JANUARY 1968 A NEW WAY OF REPORTING GOVERNMENT INCOME AND SPENDING CAME INTO BEING. IT WAS CALLED THE "UNIFIED BUDGET." SOCIAL SECURITY AND OTHER "TRUST FUND" TAX DOLLARS WOULD BE ROLLED IN WITH ALL OTHER GOVERNMENT REVENUE.

THIS PLAN CAME FROM A HIGH-LEVEL PANEL -- THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS -- WHICH HAD CALLED FOR THE UNIFIED ACCOUNTING TO MAKE THE BUDGET "A MORE UNDERSTANDABLE AND USEFUL INSTRUMENT IN PUBLIC POLICY AND FINANCIAL PLANNING" AND TO "BRING THIS DOCUMENT ABREAST OF THE TIMES."

THE RESULT WAS TO REDUCE THE FEDERAL DEFICIT BY BILLIONS OF DOLLARS OVERNIGHT.

UNDER THE OLD SYSTEM THE 1968 FEDERAL BUDGET DEFICIT WAS $19.8 BILLION. UNDER THE NEW SYSTEM THE 1968 FEDERAL BUDGET DEFICIT WAS ONLY $8 BILLION.

CONGRESS WENT ALONG WITH THIS NEW SYSTEM. THE SENATE MAJORITY LEADER AT THE TIME, MIKE MANSFIELD (MONTANA), SAID THAT THE PRESIDENT'S REVISED BUDGET HAD A NUMBER OF "STRIKING ADVANTAGES" OVER THE OLD ONE. ONLY A FEW LAWMAKERS DISAGREED, ONE WAS SENATOR

JOHN J. WILLIAMS (DELAWARE) WHO SAID: "IF ANY PRIVATELY OPERATED BANK ISSUED A REPORT TO ITS STOCKHOLDERS, THE OFFICIALS OF THAT BANK WOULD BE IN THE PENITENTIARY. IT IS EQUALLY MISLEADING FOR THE FEDERAL GOVERNMENT TO SUCH BACKHANDED ACCOUNTING METHODS, WHICH CAN HAVE BUT ONE PURPOSE AND THAT IS TO DECEIVE THE AMERICAN PEOPLE AS TO THE SERIOUS STATE OF OUR FINANCIAL SITUATION."

WILLIAMS LOST

DECEPTION WON

IN 1969 (THE LAST YEAR WE REPORTED A BUDGET SURPLUS) THE GOVERNMENT REPORTED A $3.2 BILLION SURPLUS. IN FACT, HAD THE SOCIAL SECURITY AND OTHER "TRUST FUND" SURPLUS BEEN EXCLUDED, THE GOVERNMENT WOULD HAVE REPORTED A DEFICIT OF $4.9 BILLION.

THE UNITED STATES' FEDERAL BUDGET DEFICIT FOR FISCAL YEAR 1994 HAS BEEN UNDER-REPRESENTED BY 24%. IN OTHER WORDS, THIS YEAR'S DEFICIT IS REALLY 300 BILLION DOLLARS GREATER THAN THE COMMONLY REPORTED DEFICIT FIGURE.

IF YOU GO TO PAGE 242 OF YOUR FEDERAL BUDGET HISTORICAL TABLES YOU WILL SEE THAT WE REPORT THE TOTAL, ON-BUDGET, AND OFF-BUDGET TOTALS. THE TOTAL COMBINES THE ON AND OFF BUDGET TOTALS AND THEREFORE MASKS THE REAL BUDGET DEFICIT MINUS THE SOCIAL SECURITY TRUST FUND.

WE HAVE BEEN DEPLETING THE SOCIAL SECURITY TRUST FUNDS TO PAY THE OPERATING EXPENSES OF OUR FEDERAL GOVERNMENT FOR QUITE SOME TIME. THIS USES THE TRUST FUND TO MASK THE TRUE BUDGET DEFICIT AND HIDES THE TRUTH CONCERNING THE TRUST FUND...THAT IT JUST ISN'T THERE.

MR. CHAIRMAN, THESE FOUR PROPOSALS, THE SOCIAL SECURITY SOLVENCY ACTS OF 1994, PROVIDE A REASONABLE SOLUTION TO A VERY SERIOUS PROBLEM. BY COMBINING THE NECESSARY MONETARY ADJUSTMENTS AND RESTORING TRUTH TO OUR DISCUSSION, WE WILL ADDRESS THIS IMPORTANT ISSUE. OUR PROPOSALS DO NOTHING THAT WILL JEOPARDIZE THOSE CURRENTLY RETIRED OR SOON TO RETIRE.

WHILE SOME ARE PROPOSING TO ONCE AGAIN RAISE PAYROLL TAXES TO FIX THE SYSTEM, OUR PROPOSALS CONTAIN NO TAX INCREASES. RATHER THEY MAKE MODEST ADJUSTMENTS TO PUT THE SOCIAL SECURITY SYSTEM BACK ON FIRM FOOTING IN A FAIR, EQUITABLE, AND GRADUAL MANNER.

BACK IN DECEMBER, AT OUR FUTURE OF ENTITLEMENTS CONFERENCE, I SAID THAT WE MUST BE HONEST WITH THE AMERICAN PEOPLE CONCERNING THESE PROGRAMS WHICH ARE SO IMPORTANT TO ALL OF US. WE MUST ALSO BE HONEST WITH OURSELVES: ONLY A BI-PARTISAN EFFORT WILL ENABLE US TO ENACT REAL ENTITLEMENT SPENDING REFORM. WE MUST FACE THE ISSUE OF ENTITLEMENT SPENDING NOW SO THAT OUR CHILDREN DO NOT HAVE TO PAY THE PRICE FOR OUR LACK OF ACTION. THIS IS ONE STEP IN A LONG JOURNEY TOWARD THAT GOAL.

THE REPORTER

= OPINION =

MONDAY, JUNE 6, 1994

Social Security ailing

Margolies-Mezvinsky plan worth a look

EDITORIAL

Our Views

SOCIAL SECURITY is one of the best programs the federal government ever created. It has lifted millions of elderly Americans out of poverty and given them dignity. But unless something is done soon, Social Security may be in big trouble.

If nothing changes, the Social Security Trust Fund will be bankrupt by the year 2013, according to the Congressional Budget Office. That's 19 years from now.

The reason: People are living longer. When Social Security was created in the 1930s, life expectancy was 63 years and many people died before retirement age. Today, people are living into their 80s and 90s.

Moveover, the 1972 decision to tie Social Security earnings to the cost of living — which guaranteed seniors protection from inflation — produced enormous costs. The average retiree eats up all the payroll taxes he or she ever paid into Social Security —plus interest from the first work day — in less than five years. For the rest of the retiree's life, he or she is taking money from the retiree's children or grandchildren.

On top of that, the Reagan administration in 1983 began financing its bloated government budget deficits by borrowing from the Social Security Trust Fund. The scam continues to this day, enabling the government to understate its $200-billion-a-year deficit by $54 billion.

Finally, the baby-boom generation will begin turning 65 by the year 2013 just as the work force — the people who pay the bills —will be shrinking.

According to the Congressional Budget Office, if nothing is done, by the year 2013 workers will be paying 13.4 percent of their earnings to keep Social Security afloat — almost double the current cost of the program. This is a recipe for economic catastrophe.

LAWMAKERS AND PRESIDENTS have been reticent to even talk about the Social Security crisis. Only three proposals are on the table now, and two, we believe, fall short. Rep. J.J. Pickle, D-Texas, would increase the payroll tax. Rep. Dan Rostenkowski, the recently dethroned chairman of the House Ways and Means Committee, would increase the payroll tax and cut benefits.

Reps. Marjorie Margolies-Mezvinsky and Tim Penny take a different tack, and we recommend readers take a serious look at their proposal.

Their package has four elements:

- Gradually extending the retirement age to 70 by the year 2013.
- Giving Social Security recipients an annual flat-rate cost of living allowance, rather than a percentage increase.
- Sending recipients a monthly statement along with their payments showing how much they paid in and how much they got out.
- Ending the practice of including the Social Security bill in the budget, thus masking the size of the federal budget deficit.

MARGOLIES-MEZVINSKY says her plan would not raise taxes or cut benefits. Rather, it would make modest adjustments aimed at putting Social Security on a sound actuarial basis for 75 years.

There are many sound aspects to the package. We have argued in the past that the federal budget deficit is swollen beyond reason, and that both spending cuts and tax increases are needed to sop up the red ink. Also, giving each Social Security recipient a statement of income and outgo would dispel notions that the trust fund is an bottomless money pit.

The plan is complex, and it will take a good deal of study before any legislative action is taken. However, Margolies-Mezvinsky should be commended for tackling the issue head on, especially during an election year when 30-second attack ads can finish a politician's career.

You might begin asking yourself this question: Is your retirement — and your children's retirement — secure enough to risk ignoring reform of the Social Security program?

The Free Press, Mankato

Opinions

Monday, May 16, 1994/**Page 4**

Tim Penny takes on most sacred program

Many observers were surprised when U.S. Rep. Tim Penny voted to ban some assault weapons. Although a gun-rights supporter, Penny was willing to take the heat for his vote because he believed it was the right thing to do for the nation.

Two weeks later, Penny has decided to take on the most sacred of federal programs: Social Security.

While the opposition from many senior citizens groups will be intense, Penny is again showing that he puts the nation's interest — and future — first.

It would be easy to say that Penny — who is retiring next year — is able to support unpopular positions because he doesn't have to worry about re-election.

But Penny's long congressional history of taking the fiscally responsible route, no matter the pressure, dispels that view.

Penny, along with Margorie Margolies-Mezvinsky, D-Pa., has introduced three bills aimed at reforming the Social Security System.

One bill would accelerate the increase in the retirement age starting in 1999 and raising it four months each year until it reaches age 70 in 2013.

The higher retirement age makes sense as life expectency rises and Social Security funds decline.

Another money-saving bill would change the way cost-of-living adjustments are made. Instead of an annual percentage increase in the COLA, recipients would get a flat-dollar increase. The plan would protect those receiving the lowest benefits and wouldn't unduly burden those with higher benefits.

The final bill would require that recipients receive a monthly statement showing how much they contributed to Social Security and how much they have received so far. Most recipients don't realize they collect far more than they've contributed.

Social Security — nor any other entitlement program — can remain a sacred cow if the country is ever to control the spiralling national debt. Penny's willingness to begin to change the system is admirable, and typical of the fiscal conservative.

For the nation's sake, we hope there are enough lawmakers willing to continue the battle after Penny leaves office.

Trade talks between Tokyo and Washington have broken down. And new Prime Minister Tsutomu Hata seems unable to achieve political reforms. No wonder traders are piling into the yen.

German investors are shunning the dollar, too. Economist George Magnus of S. G. Warburg Group figures that the dollar could slip 7% from its current level, to around 1.52 marks, by summer.

Why? Germany, says Prudential Securities economist C. Michael Aho, "could be picking up faster than most people expect." Indeed, improving factory orders, production, and profits could keep the Bundesbank from cutting rates much further. Thomas Mayer, chief economist at Goldman, Sachs & Co. in Frankfurt, expects to see the Bundesbank cutting rates by a quarter of a point by this June. But by the end of 1995, three-month German interest rates, now at 5.3%, could be back up to 6.6%. "The Bundesbank," he says, "has probably come to an end of monetary easing."

Such forecasts can't help but bolster the cause of the dollar bears. "We really do believe the dollar is fundamentally undervalued," says Colgate-Palmolive Treasurer Brian J. Heidtke. That is also the line that the Clinton Administration is pushing. Whether traders buy it is anybody's guess.

By William Glasgall and Suzanne Woolley in New York, with Bill Javetski in Paris, and bureau reports

Commentary/by Paul Magnusson

DEAR ELIZABETH: THE DOG ATE YOUR SOCIAL SECURITY

On Apr. 28, President Clinton was asked if Social Security was going broke. He said no. To prove it, he promised to write to "everybody in the country every year on their Social Security account: 'Here's what's in it. Here's how much money it's earned. Here's what you can look forward to getting out.'" Clinton pledged a letter "within the next four or five years," safely past the 1996 election. No fool, he. Still, telling the truth about Social Security would be unprecedented for politicians. Could it be done? I decided to try it myself, in a letter to my 7-year-old daughter:

Dear Elizabeth,

Pay attention, Sweetheart, because this gets complicated. Even the President gets it wrong. I'm very sorry, but there's no money in your Social Security account and never will be. That's because no one has her own Social Security account. Instead, people send 7.6% of their pay to Washington, their bosses match it, and it's spent right away paying Social Security and medical benefits to older folks. And what's left over is spent on other important things, such as aircraft carriers, national parks, and foreign travel for members of Congress.

Meanwhile, the Treasury Dept., which pays all the government's bills, replaces the money it borrows with IOUs. Of course, the Treasury Dept. has to pay interest. So it just sends more IOUs to the Trust Fund. That's how the Trust Fund is really "invested"—in IOUs, to be paid by future taxpayers. That's you!

All this will change in 2013, when you turn 26. That's when the first wave of Baby Boomers—including me—starts retiring. Since there are so many of us, there won't be enough money coming in from payroll taxes to pay for our retirement. So you'll have to start paying back the IOUs through your regular income tax. Then you'll pay for my retirement through your regular Social Security payroll tax. Whew! Your tax rates will have to be pretty high! I hope you'll feel my generation spent your money wisely.

Love, Dad

Elizabeth's vision of Dad's retirement: The links will be alive with boomers

Actually, according to the latest annual report of the Social Security Trustees, the reality is even worse. Both the Disability and Medicare funds run by the system will go bust in 1995 and 2001, respectively, unless they're bailed out. The report's rosy outlook assumes the economy will grow every year without a downturn through 2070. And unemployment will stay around 6%. Inflation? Never higher than 4%.

But the report admits financing could get a lot tougher if the economy slips into recession. If such downturns were to occur in 1995 and 1998, the Trust Fund will run into a cash-flow problem in '98. Income taxes will have to be raised or other programs cut to pay retirees. And payroll taxes eventually would have to double. Of course, the government could try to borrow the difference and shift the burden onto the next generation.

GET REAL. Such solutions, however, aren't very popular on Capitol Hill just now. Recently, House Ways & Means Chairman Dan Rostenkowski (D-Ill.) proposed a benefit cut plus a tax hike to fix things. But higher taxes make up most of the package; the mild benefit cuts are phased in over 50 years. Senate Finance Committee Chairman Daniel P. Moynihan (D-N.Y.) favors removing the Social Security Administration from the Health & Human Services Dept. Hardly a solution.

Unfortunately, politicians lack the courage to propose curbing benefits for affluent retirees and raising the retirement age—the only realistic solutions. But Boomers beware: Elizabeth and her pals one day will discover the truth about Social Security. And they won't like paying double taxes to fund their parents' greens fees. So, Clinton's letter ultimately could force the most radical change of all—a complete overhaul of the system.

Magnusson covers economic policy from Washington.

Chairman JACOBS. Mr. Bunning.

Mr. BUNNING. For either of the two distinguished Members of the House—your bills would raise the early retirement age from 62 to 67. I am wondering if this would not have an adverse impact on low-income workers who may not be totally disabled by the age of 62, but may be physically unable to continue working, and lacking in education or skills needed to qualify for a less physically demanding job.

Do you think that this proposal discriminates particularly against certain minority groups and certain low-income people by raising that specific age from 62 to age 67?

Mr. PENNY. Well, obviously, what we are doing is keeping the early retirement age in sync with the normal retirement age. And the fact is that when the program was first created in 1935, few people were expected to reach a retirement age that would enable them to draw any benefits. These equity arguments are important, I understand that, but you cannot construct a retirement age policy that is totally fair to every segment of the working population.

I think it is reasonable to suggest that if you raise the retirement age to 70 that the early retirement age should also rise somewhat. But my main concern is to ensure the solvency of the system for the long term. You can run the numbers on what you would lose by retaining a lower retirement age for those who choose early retirement, and as long as there is a willingness to find savings elsewhere in your reform package, I would leave that question to the wisdom of this committee.

Mr. BUNNING. Well, in some studies and things that we have looked at, the average African-American male, at age 20, in 1990, has a life expectancy of less than 67 years. So if we project 67 years as the starting point for retirement in Social Security, how would that person ever qualify for any Social Security benefits after having paid in for all the time that he worked?

Mr. PENNY. If I might ask a question. Have you statistics to demonstrate how many of these low-income workers now take early retirement? How many can afford to take a lower benefit check based on a very low wage based throughout their working career?

Mr. BUNNING. I don't have a number for you.

Mr. PENNY. That would be a critically important number. Because if few of them are taking early retirement now, then I think the concern would be——

Mr. BUNNING. We do penalize people if they take early retirement. They have a——

Mr. PENNY. That is the point. If they have a low working age, and early retirement gives them a really paltry retirement, we may not have that high a percentage that are now taking that option.

Mr. BUNNING. Let me ask both of you. Would it be feasible to look at a lower replacement rate, rather than raise the retirement age and/or reduce the COLA? In other words, to somehow achieve balance is what we are trying to do here.

Mr. PENNY. I will only speak for myself. I am open to that suggestion. Frankly, I think our proposals are sound and would be straightforward. But I know you pursued this line of questioning with Mr. Pickle as well, and——

Mr. BUNNING. I am trying to get a feel.

Mr. PENNY. I would not want to see the issue of raising the retirement age dropped entirely, but if there is some aspect of that that you would want to adjust and replace with a change in the replacement formula, I would be open to that. I am not going to be here to negotiate this legislative change, but I trust that you will heed Mr. Pickle's advice to take this issue up next year rather than letting this go until we are closer to the point of crisis. I think that is a reasonable tradeoff.

Mr. BUNNING. Last question or just a statement. Sixty percent of all workers take benefits before age 65 now.

Mr. PENNY. Of all workers.

Mr. BUNNING. Of all workers, not just minority groups but all workers.

Ms. MARGOLIES-MEZVINSKY. It may be important to interject here, too, that as we have structured this at the year 2013, the boomers start to retire. So with regard to work force numbers, we have taken that into account.

Mr. BUNNING. Thank you.

Chairman JACOBS. Mr. Pickle.

Mr. PICKLE. Well, Mr. Chairman, I want to thank Congressman Penny and Congresswoman Margolies-Mezvinsky for their testimony. I think we share the general proposition that the retirement age could be raised.

Obviously, you raise it a lot faster than the way I would do it. And you would also raise the early retirement age. You go from 62 and raise it up to 67, in contrast to my bill.

I want to point out, I would keep the retirement age at 62. A lot of people say, you are going to make me work until I am 70-years-old to get my benefits. And we say, no, you do not have to do that, you can get your benefits at 62, if you want to, but with a penalty for taking the money out earlier. I think that is a much better way.

But I am intrigued with the question Mr. Bunning had asked me earlier and I would ask you at this time, too. Mr. Bunning asked me how are you going to sell this to the younger workers without increasing the benefits or raising taxes. He asked how are you going to sell that, and he raised the question should we lower the replacement rate. And I say if you raise the age higher, that, in effect, does lower the replacement rate because you have to work a lot longer to get to that point.

But I happen to think that 62 is still the proper age for early retirement. So, you come to this question, if you are going to correct this deficit you have to make some changes and, before it is all over with, you have to make some reductions in the benefits. And you have to choose, do you want to raise taxes or do you lower benefits.

And I would just ask you, Mr. Penny, how do you think our younger workers would look at this? Would they recommend that we raise taxes?

Mr. PENNY. Certainly not.

Mr. PICKLE. Or lower benefits?

Mr. PENNY. They certainly would not embrace higher taxes. And that is why we kept the focus of our reforms on changing the system in a way that would bring the program back into long-term balance without resorting to higher taxes on the next generation of workers. And that is also, I think, the selling point for your plan;

you have also suggested to this committee, reforms that would preserve the system for the long term without once again resorting to higher taxes.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. PENNY. People ask about how you sell this to the younger generation, and the first thing to bear in mind is that a lot of younger workers today do not believe they will draw any Social Security benefits. They are that sour on the whole system that they believe it is not going to be there for them.

Second, I think there is a mood in the country today that people no longer expect something for nothing. They expect that there will have to be a price to pay if we are going to solve some of the problems that face this Nation, and I think you can trust folks with the truth and the changes that are required if we want to preserve this system for the next generation of retirees. If you look at this generation of young people who do not expect to draw anything, it is clearly evident to me they already accept the fact they are paying taxes for a system they do not believe will be there for them. Clearly, that group of voters would be willing to support the necessary changes in the program to save it, even though their return rate may not be what it has been for previous generations. But I think you have to level with them and I think they are ready to face the facts.

Chairman JACOBS. Mr. Crane.

Mr. CRANE. I have no questions, Mr. Chairman.

Chairman JACOBS. Mr. Houghton.

Mr. HOUGHTON. I would like to ask a question. While we are thinking long term, I wonder why nobody has suggested the possibility of having a law that, in effect, spells out the parameters that expenses should not increase projected revenues and then work from there?

There are going to be changes along the way between now and God knows when. I will not be around to appreciate those regarding increasing or decreasing retirement ages, and any disability provisions. There are always going to be things that Congress will change. But what about some sort of a structure which sets out that we are not going to penalize the younger people, because we are going to assume in our projections that the expenditures are not going to increase above the revenues which we bring in. Have you thought about this at all?

Ms. MARGOLIES-MEZVINSKY. One of the bills that we have suggested by taking Social Security out of, essentially taking it offline, taking it out of the budget process, that we are certainly going one step further to making sure that, actually, we are just exactly on the same page.

Mr. PENNY. The point is that if you take the building surplus out of our budget calculations, it forces us to be more honest as on a pay-as-you-go basis with the remainder of the budget and to come up with the revenues necessary to put the rest of the budget in the black.

And I think the point Ms. Margolies-Mezvinsky has made here is that that is the virtue of separating the Social Security trust fund from the calculation of the budget deficit. It forces us to make tough decisions on those remaining items in the budget without

using Social Security money to mask the overexpenditures that exist elsewhere.

Mr. HOUGHTON. One other issue that I am sure has been brought up before, but I bring it up now since we are talking so long range that it is important to touch on this. That is, if you take a look at any other pension system, whether it is international or State or private, it does not operate this way. We absolutely totally penalize the investors in this.

And if there was only a way of changing that philosophy so that money paid in does not just go into special Treasury bills, but does something. What you are trying to do is to relieve the pressure on the younger people, and that is one of the relief valves.

Ms. MARGOLIES-MEZVINSKY. Also, as has been mentioned before, we have such a triage mentality here that we only really look at the question when it is bloodletting before us, and this is exactly what we are trying to make sure does not happen, even in light of the fact that it is an unpopular conversation to have.

Mr. HOUGHTON. Sure. But if you really take Social Security off budget, and have the parameters and the disciplines which you think are important, you still avoid this investment issue.

Mr. PENNY. Yes, and there is no disputing that even with the reforms we have proposed, reforms that do not rely on higher payroll taxes, Social Security is not going to be a very good deal for future generations of retirees. But at least we think with these changes it will be there, and so while the return on their investment is not going to be anywhere near what it ought to be, these adjustments will save the program from insolvency and allow them to at least draw back a good portion, if not all, they have paid in.

Mr. HOUGHTON. Thank you. Thank you, Mr. Chairman.

Chairman JACOBS. Well, the subcommittee is very grateful to both of you. In my view, you are two of the best Jiminy Crickets in Congress, as I recall the famous quotation, "Always let your conscience be your guide," and I think both of you meet that test admirably, and we thank you for enriching the record.

Mr. PENNY. Thank you, Mr. Chairman.

Ms. MARGOLIES-MEZVINSKY. Thank you.

Chairman JACOBS. The next witness is the Commissioner of Social Security, Shirley Chater.

Ms. Chater, we welcome you to the subcommittee once again, and we are sorry to have detained you for so long, but please proceed.

STATEMENT OF HON. SHIRLEY SEARS CHATER, COMMISSIONER OF SOCIAL SECURITY, ACCOMPANIED BY HARRY BALLANTYNE, CHIEF ACTUARY

Ms. CHATER. Thank you, Mr. Chairman. I want to introduce a person who, of course, needs no introduction, Harry Ballantyne, our chief actuary. In this case I am going to present the testimony and he is going to answer the questions.

Chairman JACOBS. Maybe I should point out that Bob Myers, the former chief actuary, is here as well. I hope you both give the same answer.

Mr. PICKLE. Mr. Chairman, may I also observe that Mr. Bill Kelly is here, who was head of the Social Security staff in 1983

when we made the Social Security reform bill. Mr. Kelly, good to see you.

Mr. KELLY. Mr. Chairman.

Ms. CHATER. I want to tell you that I am pleased today to begin this discussion of the long-range financial outlook for the Social Security program. Considering the crucial role that Social Security plays in our society, its future solvency is certainly of critical importance to the Nation. I commend you for holding this hearing. It encourages a discussion of the issue.

I would like to submit a full written statement for the record.

Chairman JACOBS. Without objection, it will be included.

Ms. CHATER. When we talk about an issue as important as the financial health of the Social Security program, I believe we owe it to the public to begin by laying a foundation for our discussion. To do that, we need to remember the basic goals of the Social Security program and to examine the reasons for its long history of success, for it is only within that context that we can fairly evaluate the various options for ensuring the program's long-term financial health. My written testimony contains a brief discussion of the history of the program, which I know you know.

Today I want to call attention to the reasons for Social Security's longstanding support among the American public, and then I will address the financial outlook for the program, as well as some issues that must be considered as we evaluate options to improve its financial status. I also want to mention some next steps.

Before I begin that discussion, I want to stress that the complex interplay of issues described today makes it very clear that it is impossible to evaluate fairly specific proposals to modify the Social Security program unless each proposal is considered in relation to the others. Thus, any given proposal can be evaluated only as a part of an overall package which addresses the long-term financial status of the program.

The bills offered by Mr. Rostenkowski and Mr. Pickle and others, for example, each represent efforts to deal with the financing of Social Security, but they do so in different ways. What they have in common, however, is that each bill is more than a collection of miscellaneous Social Security-related proposals. Rather, these bills represent thoughtful approaches designed to address long-term program solvency. And each is an example of a package made up of specific proposals.

Now, what are the reasons for the success of the Social Security program over these years? Well, the longstanding success of the Social Security program did not just happen. One important element of the program's success is the balance of two competing goals or aims, often referred to as individual equity and social adequacy.

Individual equity refers to the concept that the program should provide a fair return to each worker. This principle is reflected in the fact that benefits are paid regardless of individual financial need and the fact that the amount of a worker's Social Security benefit is directly related to the earnings on which Social Security taxes were paid, so that higher earners receive higher benefits.

Social adequacy, the second principle, on the other hand, refers to the concept that the program should provide at least a minimally adequate income floor for low-wage earners. This principle is

reflected in the fact that the basic benefit formula is designed to replace a higher proportion of earnings for low earners than for high earners. This is in recognition of the fact that low earners have less opportunity to save for their own retirement, they are less likely to have a private pension, and need to have more of their earnings replaced because they spend a higher proportion of their income on basic needs.

It is important, I feel, to understand the interplay of these two fundamental principles, not only upon the individual worker, but upon the program and our society as well. For instance, the individual equity aspect of the program helps maintain popular and political support for Social Security by ensuring that all workers have a stake in the program. At the same time, the social adequacy aspect of the program allows Social Security to meet broad social needs that might otherwise go unmet.

These are the characteristics of a social insurance program.

We have the time to develop ideas that enhance long-term solvency while protecting these two principles. Under the most likely assumptions of the Social Security Board of Trustees' 1994 report, the combined assets of the old-age, survivors and disability insurance trust funds will grow this year with income projected to total about $377 billion, with the outgo projected to total about $325 billion.

The report further indicates that the Social Security trust funds are expected to continue to grow for 25 years. After that time, however, the cost of the program, as you know, will exceed the amount coming into the trust funds and the combined Social Security trust funds are expected to be exhausted in the year 2029. We need to take action to see that the program is financially sound.

As the bills introduced by Mr. Rostenkowski and Mr. Pickle clearly show, there are a number of possible ways to restore the long-range solvency of the program. When we evaluate these options we must make every effort to balance the competing aims of social adequacy and individual equity.

I would mention some next steps. Clearly, the long-term financing issues that confront Social Security require very careful consideration. And, fortunately, as I said, we have the time to take measured and thoughtful action.

One step is that we can look forward to the work of the 1994 Advisory Council on Social Security. This panel, composed of leading experts on public and private pension systems, has been charged to examine Social Security financing.

Another step is that we look forward soon to having a new advisory board. We hope that they will assist us in rebuilding public confidence.

And, most importantly, the Social Security Administration looks forward to working with the Congress to develop a package of proposals which will help restore both the long-range solvency of the Social Security program and public confidence in the program's future.

In closing, Mr. Chairman, I would point out that 1995 will mark the 60th anniversary of the Social Security program. It will also mark the year that Social Security becomes an independent agency. When President Clinton signed the legislation creating an inde-

pendent agency, he referred to the program's success during the 59 years since President Roosevelt signed the legislation creating the Social Security program, and he spoke of our commitment to its future.

Mr. Chairman, by holding this hearing today you and the members of this subcommittee are doing your part to honor that commitment.

And that brings me to one last and more personal issue. I cannot let this day pass without saying a few words of thanks to Mr. Pickle—for the special contributions he has made to the work of this distinguished subcommittee, his knowledge of the Social Security program, and his dedication to its fundamental principles. His service has helped provide fellow Americans with a measure of economic security and peace of mind. So, Mr. Pickle, millions of American workers and their families owe you a debt of gratitude and, on their behalf, I thank you.

[The prepared statement follows:]

STATEMENT OF SHIRLEY S. CHATER
COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to begin a discussion of the long-range financial outlook for the Social Security program. Considering the crucial role that Social Security plays in our society, its future solvency is of critical importance to the nation, and I commend you for holding this hearing to encourage discussion of the issue.

When we talk about an issue as important as the financial health of the Social Security program, we owe it to the public to begin by laying a foundation for our discussion. To do that, we need to remember the basic goal of the Social Security program, and to examine the reasons for its long history of success. For it is only within that context that we can fairly evaluate the various options for ensuring the program's long-term financial health.

Thus, I will begin with a brief discussion of the history of the program, including the reasons for its long-standing support among the American public. I will then address the financial outlook for the program, as well as the'issues that must be considered as we evaluate options to improve its financial status. Finally, I will discuss the next steps in the process of protecting the program's future.

Before I begin that discussion, Mr. Chairman, I want to mention that the complex interplay of issues I will describe today makes it clear that it is impossible to evaluate specific proposals to modify the Social Security program fairly unless each is considered in relation to others. Thus, any given proposal can be evaluated only as part of an overall package which addresses the long term financial status of the program.

The bills offered by Mr. Rostenkowski and Mr. Pickle, for example, each represent efforts to deal with the financing of Social Security, but they do so in different ways. What they have in common, however, is that each bill is more than a collection of miscellaneous Social Security-related proposals. Rather, these bills are two thoughtful approaches designed to address long-term program solvency. I will discuss these bills in a bit more detail in a moment, but let me first turn to the purpose and history of Social Security.

<u>A History of Success</u>

As you know, Mr. Chairman, the Social Security program was born out of the Great Depression of the 1930's. The fundamental program goal was to provide a basic floor of financial protection that, when supplemented by other income sources such as pensions, savings, and investments, would help prevent a recurrence of the widespread economic insecurity and poverty of that time, particularly among the elderly.

To accomplish this fundamental goal, Social Security was created as a nationwide system of "social insurance," designed to spread economic risk and redistribute income. Under Social Security, workers, their employers, and the self-employed pay Social Security taxes which help insure the workers, their survivors, and their dependents against the loss of earnings due to the worker's retirement, death, or disability.

Clearly, Mr. Chairman, the Social Security program has met this basic goal. Indeed, there is no single program--public or private--that has protected the financial well-being of as many Americans as Social Security. Thanks to its history of broad-based bipartisan support, Social Security has been a source of financial security and stability for millions of Americans for nearly 6 decades. Last year, for example, the program paid about $300 billion to approximately 42 million Social Security beneficiaries. Yet, the cost of administering the program is less than one percent of taxes paid.

Perhaps the most important measure of success, Mr. Chairman, is found in the program's support among the American people--support which expresses itself not simply in the desire for benefits, but also in the willingness to pay for those benefits. For example, a survey conducted by the 1991 Advisory Council on Social Security showed that the overwhelming majority--78 percent of those surveyed--agreed with the statement, "I don't mind paying Social Security taxes to support the program." Moreover, although the level of support for the program was found to rise along with rising age, clear majorities of all age groups indicate willingness to pay taxes to support Social Security. In addition, all income levels supported the program equally.

The Foundation of Success: Individual Equity and Social Adequacy

Mr. Chairman, the longstanding success of the Social Security program did not simply happen. One important element of the program's success is the balance of two competing aims, often referred to as "individual equity" and "social adequacy."

Individual equity refers to the concept that the program should provide a fair return to each worker. This principle is reflected in the fact that benefits are paid regardless of individual financial need, and the fact that the amount of a worker's Social Security benefit is directly related to the earnings on which Social Security taxes were paid, so that higher earnings result in higher benefits.

Social adequacy, on the other hand, refers to the concept that the program should provide at least a minimally adequate income floor for low-wage earners. This principle is reflected in the fact that the basic benefit formula is designed to replace a higher proportion of earnings for low earners than for high earners. This is in recognition of the fact that low earners have less opportunity to save for their own retirement, are less likely to have a private pension, and need to have more of their earnings replaced because they spend a higher proportion of their income on basic needs.

It is important to understand the interplay of these two fundamental principles, not only upon the individual worker, but upon the program--and our society--as a whole. For instance, the individual equity aspect of the program helps maintain popular and political support for Social Security, by ensuring that all workers have a stake in the program. At the same time, the social adequacy aspect of the program allows Social Security to meet broad social needs that might otherwise go unmet.

As we examine possible actions intended to ensure the long-range financial health of the program, Mr. Chairman, we will have to be particularly vigilant in our efforts to preserve the essential balance between these two aspects of the Social Security program.

The Long-Range Financial Outlook

Social Security's financial status is described in the 1994 report of the Social Security Board of Trustees. Their annual report to Congress, which is required by law, contains actuarial estimates of the financial status of the Social Security trust funds using a range of economic and demographic assumptions.

Under the most likely assumptions of the Board's 1994 report, the combined assets of the Old Age and Survivors Insurance and Disability Insurance trust funds will grow this year, with income projected to total about $377 billion, and outgo projected to total about $325 billion. The report indicates that the Social Security trust funds are expected to continue growing for 25 years. After that time, however, the cost of the program will exceed the amount coming into the trust funds, and the combined

Social Security trust funds are expected to be exhausted in the year 2029, if the law is not changed.

Declining Fertility and Increased Longevity

Although there are always a number of factors that influence actuarial projections, a major reason that the cost of the Social Security program begins to outstrip income in the future is that the number of beneficiaries is expected to increase more rapidly than the number of covered workers. In other words, there will be fewer workers to support each beneficiary. I would point out that the country's changing demographics--such as increases in life expectancy--will have an impact not only on Social Security, but also on private pension plans, as well as public employee retirement plans.

In the beginning of the Social Security program, few people had qualified for benefits. As a result, the ratio of workers to beneficiaries was very high. In 1950, for example, there were approximately 16 workers for every Social Security beneficiary. Contrary to some popular misconceptions, however, it was always expected that the ratio of workers to beneficiaries would decline as the program matured. In 1993, there were about 3.2 workers for each Social Security beneficiary, which is consistent with projections made when the program was first established, more than 50 years ago.

The challenge facing us now is that this ratio will decline to about 2 to 1, between 2010 and 2030, as the relatively large number of persons born during the "baby boom" (from the end of World War II through the mid-1960s) reaches retirement age and begins to receive benefits. At the same time the baby boom reaches retirement, the work force will be comprised of the relatively small number of persons born during the so-called "baby bust" years following the baby boom. Between 2030 and 2050, the ratio of workers to beneficiaries is projected to be about 2 to 1. After the year 2050, continuing increases in longevity will cause this ratio to decline again, but at a slower pace, until it reaches about 1.8 to 1 by the year 2060.

Many Americans believe that the nation's changing demographics will destroy the Social Security program. This is a concern I hear voiced again and again by today's younger workers--workers who support the Social Security program, but who do not believe the program will be there for them, when they need it.

Action is needed to ensure that the program is financially sound for future generations. To do this, we will need to increase the amount of money coming into the trust funds, or decrease the amount being paid out, or do some combination of the two.

A range of possible solutions is shown in the bills introduced by Mr. Rostenkowski and Mr. Pickle. For instance, H.R. 4245, the Social Security Long-Range Solvency Act of 1994 introduced by Mr. Rostenkowski, would restore the financial health of the program through a variety of modifications, but relies most heavily on proposals which would enhance revenues. For example, two major provisions would increase the Social Security tax rate and extend coverage to newly hired State and local government employees. However, another significant provision would slow the rate of growth in benefit levels between the years 2005 and 2055.

On the other hand, Mr. Pickle's Bill--H.R. 4275, the Social Security Entitlement Reform Amendments of 1994--would restore solvency primarily by adjusting benefits. This bill, for example, includes provisions that would increase the normal retirement age to 70, reduce benefit levels for workers with disabilities, and provide for delays in cost-of-living adjustments.

Both of these bills are important, well-considered efforts to deal responsibly with the challenge facing us. And, while any proposals to restore the solvency of Social Security will likely be unpopular, the changes will not be nearly as dramatic as many younger workers might expect. Thus, restoring the financial solvency of the Social Security program is a challenging, but manageable task.

Balancing Adequacy and Equity

As the bills introduced by Mr. Rostenkowski and Mr. Pickle clearly show, there are a number of possible ways to restore the long-range solvency of the program. When we evaluate these options, we must make every effort to balance the competing aims of social adequacy and individual equity, which I mentioned earlier.

The significance of the social adequacy goal of Social Security is clear when we consider that about 36 percent of beneficiaries over age 65 are kept from living in poverty by their monthly Social Security benefits. Moreover, Social Security is the major source of income for approximately six out of ten beneficiaries. In fact, Social Security provides 90 percent or more of the income for about one-fourth of beneficiaries; and it is the only income for about 13 percent.

These statistics might seem to argue for limiting benefits only to high earners, or raising taxes on current workers, rather than a broader revision in benefits. These changes, however, would diminish the individual equity aspect of the Social Security program, by further reducing the return paid to high-income workers.

To more fully understand the difficulty of this dilemma, it is helpful to look at the two extremes of the spectrum: concern about adequacy of benefits for older women, and concern about equity for high-earner, single men.

Adequacy for Older Women

Older women living alone often fall below the poverty line. In fact, the poorest cohorts of Americans are children under age 18, and women over the age of 85. Even when these women are eligible for Social Security, they often fall into poverty because they have "outlived" their assets. And even when pensions are available, their value may be eroded over time, because they do not keep pace with inflation. Thus, the longer these beneficiaries live, the more likely they are to become impoverished.

This is particularly troubling because of the growth in the over-85 population. In fact, while the number of beneficiaries aged 65 or older increased by 7 percent from 1989 to 1993 (from 28.8 million to 30.8 million), the number aged 85 or older rose by 17 percent (from 2.9 million to 3.4 million) over the same period of time. I would mention that Mr. Pickle addresses this issue by including in his bill a provision for increasing benefits at age 85.

Equity for High-Earner, Single Males

As we seek ways to protect and improve the adequacy of benefits for older women--while also restoring the long-range solvency of Social Security--one might expect to resolve the issue by reducing benefits for high-wage earners, since they are less likely to need benefits, and more likely to have pensions and other assets outside of Social Security.

Yet, it is critical that we not undermine the principle of individual equity by asking those who already get the lowest rate

of return on their taxes to accept a significantly lower return on their Social Security contributions. Indeed, the program is already at risk of failing the equity test for single, high-earner males. These workers will, under current law, receive a lower return on their taxes both because of the weighted benefit formula, and because males, on average, have a shorter life expectancy than females.

Providing an equitable return on tax dollars paid is a matter of simple fairness. It is also at the heart of the broad-based support for the program, and has been affirmed again and again throughout the years. One of the clearest statements on the issue is found in the 1979 Advisory Council Report:

> The council believes that the Social Security benefit formula should be structured so that a worker can expect to receive, as earnings increase, additional benefit protection that represents a reasonable return on the additional employee tax payments resulting from additional earnings. We believe this principle should apply even to those workers who, in the end, have never married and always earned the maximum taxable amount.

In short, Mr. Chairman, when we consider various options for ensuring the financial health of the program, we need to do more than merely balance the bottom line; we also need to balance the competing principles of individual equity and social adequacy. Otherwise, we risk destroying the program itself.

<u>The Broader Context</u>

In addition to examining the ways in which any proposal fits with the goals and principles of Social Security, we must also look at the way the proposal would fit within an overall national retirement and income security policy. By way of example, let us look at some of the variables that need to be considered when evaluating the impact of raising the retirement age.

Under current law, normal retirement age--the age at which a worker may first become entitled to unreduced benefits--will gradually increase from age 65 to age 67. This increase will be phased in, beginning with an increase to 65 years and 2 months for persons reaching age 65 in the year 2003, eventually reaching age 67 for persons who reach that age in 2027 or later.

Raising the retirement age beyond the increase scheduled in current law has considerable appeal because life expectancy has improved substantially since Social Security was enacted. In fact, when benefits were first paid in 1940, a 65-year-old could expect to live about 13 more years; in 1995, life expectancy at 65 will be about 17 years. Moreover, it is anticipated that life expectancy will continue improving in the future, making it reasonable to expect some additional increase in retirement age. However, we need to consider information about health and the ability to work at later ages, as well as the impact of such a change on different income groups.

Thus, there are many factors that may have an important influence on the impact of a change in Social Security. This points out the need to consider potential changes in the Social Security program within the context of a broader debate about national retirement policies.

In addition, we need to consider how proposals to modify Social Security fit with social trends and public expectations. Consider again the example of raising the retirement age. It is worth noting that approximately three out of four Social Security beneficiaries now retire before age 65, electing reduced benefits. Therefore, we also need to take into account the apparent needs and preferences of the American public.

There is also a question of how a proposal to delay normal retirement age would fit with the move by many businesses and organizations--in both the public and private sector--to streamline operations by encouraging older workers to retire early. Is this a temporary phenomenon, or will the trend continue? What would be the impact on younger workers if their older colleagues had to wait longer to become eligible for full Social Security benefits? These questions point out some of the complex, far-reaching ramifications of changing Social Security.

Next Steps

Clearly, the long-term financing issues that confront Social Security require careful consideration. Fortunately, we have the time we need to take measured and thoughtful action.

One of the tools that will help us do so is the work now being done by the Advisory Council on Social Security. The Council, composed of leading experts in public and private pension systems, has been charged by Health and Human Services Secretary Donna Shalala with responsibility for examining Social Security financing, including developing recommendations for improving the long-range financial status of the program.

The Secretary has also asked the Council to evaluate the adequacy and equity of Social Security benefits paid to persons at various income levels, in various family situations, and in various age cohorts. They will also be looking at the relative roles of the public and private sector in providing retirement income. Part of this analysis will involve an examination of the way in which policies in both sectors affect the retirement decisions and economic well-being of individuals.

The Social Security Administration (SSA) looks forward to working with Congress to help restore both the long-range solvency of the Social Security program and public confidence in the program's future.

Conclusion

In closing, Mr. Chairman, I would point out that 1995 will mark the 60th anniversary of the Social Security program. It will also mark the year that SSA becomes an independent agency. When President Clinton signed the legislation creating an independent SSA, he referred to the program's success during the 59 years since President Roosevelt signed the legislation creating the Social Security program, and of our commitment to its future:

> For millions of Americans, that signature 59 years ago transformed old age from a time of fear and want to a period of rest and reward. It empowered American families as well, freeing them to put their children through college to enrich their own lives, knowing that their parents would not grow old in poverty...What we do here today maintains that historic commitment.

Mr. Chairman, by holding this hearing today, you and the Members of this Subcommittee are doing your part to honor that commitment.

That brings me to one last, more personal, issue. I cannot let this day pass without saying a few words of thanks to Mr. Pickle for the special contributions he has made to the work of this distinguished Subcommittee. His knowledge of the Social Security program and his dedication to its fundamental principles have helped provide his fellow Americans with a measure of economic security and peace of mind. Mr. Pickle, millions of American workers and their families owe you a debt of gratitude. On their behalf, I thank you.

* * * * *

Mr. PICKLE. Thank you very much.

Chairman JACOBS. Mr. Pickle will inquire. Did you really mean that?

Why don't you inquire.

Mr. PICKLE. I noticed at the beginning of your statement you did not choose one bill over the other, and that is a wise decision, even for some of us who may be leaving.

But I do think you point out the great importance of this program to the American people. It has been the most successful program, social program, and it is a social insurance program. We ought to keep it on that basis.

We have to make some changes, and we might as well recognize that. You have got to correct the 2-point deficit and it is going to get higher, because it is going that way. We might as well do it now. Either we do it now, Commissioner, or our kids will have to do it, and that is not fair because they suspect us anyway.

That reminds me, Mr. Chairman. When I was with my own State party years ago, things were so divided and so controversial, and I was the center of the controversy. And one said, "Do you know Jake Pickle?" and another said, "No, but I suspect him."

So our young people today, they hear this and they just suspect us, and that is not going to work well. So I think your overall approach is sound and I know this committee would enjoy working with you on it. Thank you for what you said about my services.

Ms. CHATER. Thank you.

Chairman JACOBS. Mr. Bunning.

Mr. BUNNING. Yes, Commissioner, in the 1980s, SSA cut about 25 percent of staff, including a substantial percentage of our field employees whose job it was to make sure that the public received the information it needed about Social Security.

Two questions. Do you think that the fact that there has not been much information about Social Security coming from the Social Security Administration has made it easier for unscrupulous groups to employ scare tactics to solicit funds from senior citizens? And, two, how do you propose to make sure that the public, young and old alike, gets the information about Social Security that is needed so that such groups will no longer have an audience to prey on?

Ms. CHATER. In answer to your first question, I would say, yes, with the cutback in staff, I know that many of the offices that had their own public relations and public information officials chose to cut those positions in favor of keeping claims representatives. So I am quite sure that when those cuts were made, the attention to sharing information about the Social Security programs was certainly lessened.

In answer to your second question, one of my major goals for the Social Security Administration is to increase public confidence about the system. We have in place an initiative that will do that. We will have in place an Associate Commissioner for Public Affairs, for public information; we have in place an educational program that will take the message to junior high schools, to senior high schools, to colleges, and to other groups. I will give a speech to anyone who invites me to do so.

It is very important to us that young people, as well as elderly Americans, do understand the basis of the program and the unique characteristics of the social insurance program that differ from a regular insurance program.

Mr. BUNNING. As you know, in most of our congressional offices, at least 50 percent of all constituent services are about Social Security and/or SSDI or SSI. Let me read a statement from the National Committee to Preserve Social Security and Medicare. This statement was made regarding the long-term solvency of Social Security:

> Avoid overreaction in looking to the future. Efforts of the Concord Coalition and other like-minded organizations, together with the preliminary findings of the Entitlement and Tax Reform Commission, have raised unwarranted public apprehension over the future of Social Security. There are legislative issues to consider and they must be addressed in a timely and responsible manner. In the process, however, it is important not to give credence to distortions and exaggerations, et cetera, et cetera.

And then I would like to put into the record this mail-out directly from the National Committee to Preserve Social Security and Medicare in which they raise all kinds of problems with the Social Security Administration as far as the long-term solvency. And, obviously, the bottom line is the request for a $10 to $25 to $50 contribution that they want on behalf of their organization: "And if you possibly can, include a contribution of $10 or $15 to help us continue the grassroots campaign on your behalf."

I thought the Social Security Administration's responsibility was to make sure that we do not need organizations like these to solicit from our seniors in order to act on behalf of them. So as I just said, the Social Security Administration's information to constituents would prevent organizations from preying on our older Americans in regard to things like this.

Do you care to respond to that?

Ms. CHATER. I would tell you that we have, as part of our initiative to reach out to our customers, done a number of things. First of all, we have begun focus groups, very extensive focus groups, meeting with groups of customers to be sure that the answers to their questions are provided.

In addition to that, I have challenged each of our district offices to take the responsibility for responding to information such as this. It used to be that any inquiry from the press, for example, came to the central office in Baltimore for an answer. We are delegating that authority to the field offices. Those are the people who have contact with newspapers, with advocacy groups, and so on, and they are all assuming increased responsibility for getting the right answer to the right people to counteract some of this.

In addition to that, Mr. Bunning, I expect that when we become an independent agency, we will be able to create our own image, if you will, our own logo, our own style of publication with attention to notices so that when someone receives a communication from Social Security they will recognize instantly that it is from their government, from their Social Security agency. And I think we can strengthen the response to requests for information by having them recognize us for what we are.

Mr. BUNNING. Chairman Jacobs and I really appreciate your belated support of the independent agency bill that we passed. In

fact, when we questioned you about it initially, I think at your first appearance here, you were not as cooperative and as outspoken in favor of the bill. But now that it is passed and the administration has signed it, we really appreciate your support. I am not taking you to the task, I am just happy we were able to get it done.

Chairman JACOBS. If the gentleman would yield, there is a certain lack of grace in beheading the messenger.

Mr. BUNNING. I am not trying to behead her; I am happy to have her support of it.

One last question. This is a 10-page document that was sent to many, many senior citizens by this organization. I hope that it is in the Social Security Administration's independent agency prerogative to make sure that messages like this are discounted by information put out by your independent agency, and to make sure that the truth in advertising is honored when the Social Security Administration puts out a flier on anything on behalf of the administration.

Ms. CHATER. We will.

Mr. BUNNING. I would appreciate that. Thank you.

Mr. HOUGHTON. I will direct this question to the Commissioner. We made changes in the estimates in 1994 in terms of the trust fund, which resulted in a drop in solvency. But in your discussions with the Office of Management and Budget, and I don't have the particular report in front of me that you submit on an annual basis, are you telling them what you are going to need in the year 2000, in the year 2010?

What does the Social Security Administration operation look like—forget about the financing and change in actuarial rates—what are the things you will need long-term in order to do the job. Do you look at that on a regular basis for the long term?

Ms. CHATER. Yes. As a matter of fact, in preparing our 1996 budget what we have done this year is to put together a picture of what we would need were we to do everything that Congress has legislated fully 100 percent. And then we have put together a budget within the budget caps which we were asked to abide by so that they will, and everyone will, know that we have to make decisions within the total framework of budget requirements and the budget that we can request.

The way we are dealing with that is to see how we can do what we do differently. In other words, we are, as you know, reengineering some of our processes; we are streamlining, and we are seeking additional money for more automation. We are hoping that all of these redesign processes, and the reexamination of how we do our work will help us meet budget targets and help us meet our objectives.

Mr. HOUGHTON. That is very good. But every so often, if you are going to take a long look at the system, and at those factors which you expect to occur now which affect the number of people you serve—age, distribution, disability—shouldn't you take into consideration that there will be certain factors, despite the best extrapolating of the data you have now, which turn out far different than they are expected to today.

I assume you first try to determine what your agency must do at the very least in order to handle its workload. It is not just a

question of how you can do things better. It is a different scenario, whether you look at it in terms of outside financing, which I assume you are doing internally, or some other way.

Ms. CHATER. We are doing that. We have a strategic plan in place that stretches out for quite a few years with intermediate and long-term goals. We have also laid out our projected staffing needs through 2000 in specific numbers and, beyond that, meeting the goals of our strategic plan.

Chairman JACOBS. Mr. Pickle.

Mr. PICKLE. Mr. Chairman, I just want to echo the sentiments Mr. Bunning expressed in his comments when he called some organizations "dollars for demagogs." In the independent agency bill, we have given SSA additional authority to cut back on some of these operations. I hope you will use every bit of authority you have to do that.

Ms. CHATER. We will do our best.

Chairman JACOBS. I am sure you will. Thank you very much.

Now we come to the financial period of our hearings, which is to say, as was announced, that the briefest testimony from here on out will win a Susan B. Anthony dollar and the runner-up will receive a Kennedy half dollar.

The first panel is the American Association of Retired Persons, Allan Tull; the Institute for Research on the Economics of Taxation, Stephen Entin; and the National Council of Senior Citizens, Bert Seidman.

Remember, gentlemen, you have either a dollar or a half dollar riding on conciseness. Mr. Tull.

STATEMENT OF ALLAN TULL, MEMBER, BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. TULL. Thank you, Mr. Chairman.

I am Allan Tull, a member of the board of directors of the American Association of Retired Persons. AARP appreciates the opportunity to present its views regarding options to restore Social Security's long-term solvency.

We hope today's hearing will start the discussion about how to keep Social Security strong and help calm fears that the program is in crisis or near crisis.

Although the 1994 trustees' report moves up the trust fund's projected exhaustion date by 7 years, Social Security is in sound financial health well into the next century.

The trustees' annual monitoring of Social Security acts as an early warning system about long-range problems. The recent trustees' report is a signal that judicious debate must now begin.

Long-term solvency can be restored by additional tax revenue, benefit changes, or a combination of the two. Changes, however, should not violate Social Security's founding principles.

Representative Rostenkowski has introduced legislation to restore long-term solvency by combining payroll tax increases with benefit changes. His proposal follows the 1983 model for reform, which spreads the burden of restoring solvency across generations and among all who have a stake in Social Security's future: Workers, employers, and beneficiaries.

As intended, his bill has stimulated needed debate about how to restore solvency. We commend Representative Rostenkowski for showing that solvency can be achieved without destroying Social Security's fundamental character.

Like Representative Rostenkowski, Representative Pickle would restore long-term solvency through changes that maintain the relationship between benefits and contributions.

However, Mr. Pickle's plan relies on benefit changes without increasing payroll taxes. As a result, the benefit changes are more dramatic than those in the Rostenkowski bill. While the benefit changes largely affect current workers, beneficiaries face a considerable loss of income because cost-of-living adjustments will be awarded biennially.

Representative Penny has proposed two ways to restore solvency. The first provides for a dramatic 5-year, phased-in increase in the age for collecting full retirement and other Social Security benefits. The rationale for raising the retirement age is that beneficiaries will live longer and collect more benefits. However, polls show that the public soundly rejects this solvency option. Moreover, unless the labor market generates and maintains jobs for older workers, some older workers won't be able to work. In addition, some old workers leave the labor force because of physically demanding jobs or health problems that interfere with job performance but are not severe enough to qualify them for disability benefits. Both groups, as well as those who become technologically unemployed, will be adversely affected by this bill. AARP believes that increases in the normal retirement age must provide protections for older workers who cannot stay in the labor force.

Representative Penny's other option would give all beneficiaries a cost-of-living adjustment not to exceed the one received by those with a primary insurance amount at the 20th percentile level. This proposal, which introduces a means test into the basic benefit package, is an unacceptable and flawed approach.

Critical to the concept of social insurance is that benefits are an earned right, rather than contingent upon income. This proposal abandons that fundamental principle. The legislation also incorrectly assumes that Social Security benefits are an indicator of comparative wealth. Benefit levels are based solely on participation in covered employment and do not reflect overall wealth. The only way to accurately assess wealth is to require beneficiaries to give a full accounting of all their income and assets. Many would view this as an unnecessary precondition for receiving a benefit they have earned.

This proposal would lower the standard of living for most beneficiaries. Not only will their yearly cost-of-living adjustment be smaller, but the income loss will be compounded by the reduction in the base for future adjustments.

AARP believes the 104th Congress should make a review of long-term solvency options one of its highest priorities. Restoring long-term solvency, while maintaining Social Security's fundamental structure, will ensure the continued success and popularity of the program.

We look forward to working with the committee further.

[The prepared statement follows:]

STATEMENT OF ALLAN TULL
AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP) appreciates the opportunity to present its views regarding options to restore the long-term solvency of the Social Security system. We commend the committee for holding this hearing on an issue in which Americans of all ages have a stake.

The Association hopes that today's hearing will not only facilitate a debate on ways to help restore Social Security's long-term financial health, but also help allay fears that the program is somehow in imminent fiscal danger. What nonsense! The Social Security trustees have projected that Social Security can continue paying benefits for another 35 years.

But this does not mean that we should merely wait until the 11th hour to act, as was the case in 1983. An early discussion of solvency options will allow workers and beneficiaries to voice their concerns, and permit a full and open debate on possible courses of action. Congress can then build a consensus to enact changes in the near future that will be less painful than if made after delaying action.

I. The Social Security System's Long-term Outlook (75 year)

While Social Security is not in long-term, actuarial balance, the 1994 report of the Social Security trustees indicates that the program is in sound financial health for the foreseeable future and will not deplete its reserves for another 35 years. Until 2013, the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds combined (OASDI) will take in more annual revenue than needed to pay yearly benefits. Beginning in 2013, revenue to the trust funds plus interest earnings will continue to exceed annual benefits through 2018. Starting in 2019, annual trust fund outgo is projected to exceed annual income, and trust fund reserves will be gradually drawn down, until they are exhausted in 2029. Incremental reforms, enacted soon, however, could restore Social Security's long-term actuarial balance and ensure that benefits will be paid on time in the future.

The 1994 trustees' report projects an exhaustion date that is seven years sooner than last year's report forecast. However, projections of earlier trust fund depletion dates in the future can be expected. To some extent, this reflects the addition in the 75 year projection period of one, long-term, negative year. In addition, this year's change is attributable to various adjustments in prior year economic and demographic assumptions, including: a decrease in the assumed ultimate level of average wage gains in the future; an increase in the incidence of disability; a lower overall birthrate; and a lower death rate for men.

Some critics cite the 1994 change and the trend in exhaustion dates to heighten fears, particularly among younger workers, about the program's long-term viability. They conveniently overlook prior, and often more serious financial crises, that were satisfactorily resolved in the past, and with far less lead time. Solvency packages are part of Social Security's history and reflect the strong commitment of Congress and Americans of all ages to maintaining this vital program. A poll conducted for AARP by ICR in July shows that 9 out of 10 Americans oppose cutting Social Security to reduce the deficit.

Indeed, the trustees report itself is a reflection of the commitment to Social Security. In order to provide Congress and the public with an "early warning" system, Congress required annual reporting by the Trustees so that we would have ample warning of impending problems. Social Security is perhaps this nation's most closely monitored system, and the only program that projects out 75 years.

As early as 1989, the Social Security trustees began calling for a discussion of options to deal with the anticipated future funding shortfall. At that time, they recommended that the 1990 Social Security Advisory Council study and analyze ways to address the long-term deficit. Since 1989, the trustees have renewed their call for a discussion of solvency options. This year, they urged the 1994 Social Security Advisory Council to conduct an extensive review of financing issues and develop recommendations for restoring long-term balance, which the Council has begun.

Although action to restore long-term solvency should move forward as soon as possible, Social Security is neither in a crisis nor near crisis. Congress and the President have ample time to enact changes that will restore Social Security's long-term health. Moreover, the factors contributing to the long-term funding issues of Social Security are not a recent discovery. The enormous cost of providing benefits for the almost 75 million members of the Baby Boom generation has been anticipated since its size became apparent. Indeed, the Boomers have strained resources at various stages along the way -- when they entered school, college, the work place, etc. At each step, this nation accommodated this demographic wave. The Social Security program can adapt also.

II. Principles of Social Security

The Social Security system reflects a series of implicit principles that originated with the program or evolved with its growth. Solvency proposals should not stray from the principles that have successfully shaped the program as we know it today.

Social Security's benefit structure is inextricably linked to the support which Social Security enjoys across all ages and incomes. That structure reflects the following principles:

- Benefits are an earned right;
- Benefits are related to pay and time in the workforce; and
- Benefits are not based on need.

Social Security's benefit structure provides a progressive benefit formula that blends the concepts of "individual equity" and "social adequacy." To preserve the concept of equity, the benefit formula directly relates earnings to benefits by using an individual's work history and payroll tax contributions to calculate benefits. In order to provide adequacy, however, the formula is weighted so lower-wage workers receive a benefit which replaces a higher percentage of their pre-retirement wages than it does for average and higher earners. Weighting the benefit formula to favor lower-wage workers assures all workers and their families a floor of protection against destitution when a worker retires, becomes disabled or dies. This is particularly important for the lowest-wage earners who generally do not accumulate additional financial resources to replace wages lost upon leaving the paid labor force.

While many people may not understand the complexities of Social Security's progressive benefit formula, they know that everyone who is eligible for Social Security receives a benefit regardless of financial circumstances. This has been one of the fundamental strengths of the program. If Social Security were conditioned upon need, AARP believes public support would drop precipitously to the levels associated with welfare programs. If benefits were denied to high-income workers, then high earners probably would be far less willing to support and participate in the program. Since the Social Security formula represents an implicit income transfer from higher earners to lower earners, it would be unsustainable in its present form if high earners opted out of the system.

Three additional Social Security principles can be identified. They are

- Social Security is a self-financed system;
- Equal contributions by employee and employer; and
- Compulsory participation.

A new tenet was added in 1972 and implemented in 1975:

- Annual adjustments to the initial benefit amount to reflect increases in the cost-of-living.

COLAs were adopted as an alternative to the very generous benefit increases that Congress had been awarding, usually on an every other year basis. Annual price adjustments were viewed as an effective way of maintaining benefits and stabilizing trust fund outgo.

These principles have served the Social Security system well, and have helped make Social Security this nation's most popular and successful program. To ensure the same level of success for future generations, we must evaluate any solvency proposal not only with regard to these principles, but also to determine if they affirmatively answer the following questions:

- Does its benefit structure provide the foundation for a secure retirement and provide financial assistance if a worker becomes disabled?
- Does it protect survivors and dependents?
- Does it ensure taxpayers that their contributions are well managed?
- Can it maintain broad public support?

Finally, while restoring long-term solvency should be based on these long standing, time tested principles, policy makers should also focus on the nature of the future retiree/beneficiary population. Given the dramatic changes in household composition, the workforce participation of women, and the incidence of divorce, what should be the role of Social Security twenty or thirty years from now? What kind of benefits should be provided to women, to married couples, etc.? As Chart 1 shows, between 1970 and 1990, the population of households with a married couple and one or more children under 18 declined from 40 percent to 26 percent. Today, only 8 percent of households reflect the "traditional" model of a couple with one adult working and 2 children. What demands can we expect to be placed on Social Security given these changes?

III. Restoring Long-term Solvency

Long-term solvency can be restored to the Social Security program by additional revenue, benefit reductions, or a combination of the two. The Social Security Amendments of 1983 helped restore solvency through both additional revenue and benefit changes. Sacrifices were asked of all who participate in the program: workers, employers and beneficiaries. A number of proposals have been introduced in the 103rd Congress to achieve long-term solvency for the program.

A. The Social Security Long-Range Solvency Act of 1994

On April 19th, Representative Rostenkowski introduced H.R. 4245, the Social Security Long-Range Solvency Act. The Act would restore long-term solvency through a combination of revenue increases and benefit changes that maintain the program's fundamental nature. The legislation would eliminate the long-term deficit by:

- A one-time, ½ percent reduction in the cost-of-living adjustment (COLA);
- Eliminating the current law hiatus in the phased-in increase in the age for collecting full Social Security benefits (the Normal Retirement Age);
- Lowering replacement rates for high and average earners;
- Taxing up to 85 percent of Social Security benefits for single taxpayers with an modified adjusted gross income of $25,000 and $32,000 for couples;
- Increasing payroll taxes (in two steps); and
- Covering all newly hired state and local workers.

The Rostenkowski proposal resembles the 1983 model for reform, which spread the burden of restoring solvency among all who have a stake in Social Security's future.

Representative Rostenkowski's blueprint is a responsible approach that, as intended, has stimulated debate about how to restore solvency. Individually, each provision is likely to generate understandable controversy, but the items must be viewed as part of a package, which spreads the burden of ensuring long-term solvency. While many will disagree with some of the components of Representative Rostenkowski's proposal, the legislation clearly demonstrates that Social Security can be made financially strong without altering the fundamental nature of the program.

B. The Social Security Entitlement Reform Amendments of 1994

On April 20th, Representative Pickle introduced H.R. 4275, the Social Security Entitlement Reform Amendments, a revision of legislation he had introduced in November 1993. Mr. Pickle's package would restore long-term solvency largely by:

- Increasing the Normal Retirement Age to 70 by 2029 (increasing the age by two months every year beginning after 1999);
- Increasing the actuarial reduction for collecting benefits early;
- Delaying the COLA, and providing one-time, for 6 months biennial COLAs thereafter, unless inflation exceeds 4 percent;
- Modifying disability benefits to conform to the proposed changes in the Normal Retirement Age;
- Improving benefits for those over 85; and
- Gradually reducing to 62 the age at which Supplemental Security Income benefits are awarded to older persons.

Like Representative Rostenkowski, Mr. Pickle proposes restoring long-term solvency through a series of changes that maintain the program's guiding principles. However, Representative Pickle relies on benefit modifications without increasing payroll taxes. As a result, the change in the Normal Retirement Age is considerably greater in H.R. 4275.

The benefit modifications in H.R. 4275, which leave the basic benefit formula intact, have the greatest impact on current workers. Beneficiaries also face a considerable loss of income because of the one time COLA delay and particularly because COLAs will be awarded biennially thereafter. As provided by H.R. 4275, the base Social Security benefit would be adjusted in the second year as if COLAs were provided annually. This avoids the long-term losses resulting from calculating future COLAs on a smaller base. Despite this protection, many beneficiaries who rely on Social Security for most of their income could experience financial difficulties because COLA dollars are missed every other year. Unfortunately, increases in costs for food, shelter and medicine occur even when COLAs are skipped.

Representative Pickle's approach to restoring the long-term solvency of Social Security, like the Rostenkowski proposal, is to be commended for maintaining the relationship between benefits and contributions and for continuing to award benefits to all who qualify regardless of income.

C. The Social Security Eligibility Act

Representatives Penny and Margolies-Mezvinsky introduced H.R. 4372, the Social Security Eligibility Act, to provide for a five-year, phased-in increase in the age for collecting unreduced retirement and other Social Security benefits. To reach a Normal Retirement Age of 70 by 2013, Representatives Penny and Margolies-Mezvinsky would accelerate the currently scheduled increase in the Normal Retirement Age to 4 months every year beginning in 1999. The age for early receipt of benefits would be increased by five years, that is to age 67 for retired workers, age 55 for disabled workers, etc.

Like H.R. 4275, the Social Security Eligibility Act does not raise payroll taxes. While Representative Pickle opts for several benefit modifications to restore solvency, H.R. 4372 relies solely on raising the retirement age. That single change, by necessity, must be quite severe and dramatic in order to restore long-term solvency.

Rapidly increasing the Normal Retirement Age has been promoted as a way to generate Social Security savings because increased longevity implies that many beneficiaries will collect benefits for a longer period of time.

If people live longer, they could reasonably be asked to work longer and postpone receiving Social Security if it helps to maintain long-term solvency. However, unless the labor market generates and maintains jobs for older workers, older workers could be penalized. Studies, however, show that older workers continue to have the longest spells of involuntary

unemployment. Moreover, polling data shows that employers remain reluctant about hiring older workers.

Age bias and limited job opportunities for older workers could translate into lower benefits for unemployed older workers. Additionally, some older workers may be forced to leave the labor force due to physically demanding jobs or because of health problems that interfere with job performance but are not severe enough for them to qualify for Social Security disability benefits. Both groups, as well as those who become technologically unemployed, will be adversely affected by the Social Security Eligibility Act.

Even a modest increase in the Normal Retirement Age should provide protections for older workers who cannot remain in the labor force. In addition, adequate notice and a long lead time should be given to all affected workers. The Association urges proponents of any increase in the age for full benefits to educate the American public about the change and the rationale behind it.

While H.R. 4372 maintains the basic principles of Social Security, the dramatic and rapid rate of increase in the Normal Retirement Age is likely to generate considerable opposition. Moreover, the public soundly rejects increasing the age for collecting full benefits. In a February 1993 poll conducted for NBC News/Wall Street Journal, and in a poll conducted this July by ICR for AARP, almost 3 out of 4 respondents (74 percent) opposed raising the age for collecting full Social Security benefits. Although respondents were not asked why they objected, a March 1994 Employee Benefits Research Institute poll may help explain some of the resistance. The poll shows that Baby Boomers expect to retire at age 60, and their children, the Baby Bust generation, intend to stop working at age 61. A higher Normal Retirement Age means that workers who leave the labor force in their early 60's could face significant and unplanned reductions in income.

D. The Social Security COLA Limitation Act of 1994

As an alternative to restoring Social Security's long-term solvency, Representatives Penny and Margolies-Mezvinsky have proposed H.R. 4373, the Social Security COLA Limitation Act of 1994. The Act would provide all beneficiaries with a COLA not to exceed the one received by beneficiaries with a Primary Insurance Amount (PIA) at the 20th percentile level. This proposal is an unacceptable and flawed approach for dealing with Social Security's long-term deficit.

Most importantly, the bill introduces need as a precondition for calculating COLAs. In short, the bill would include a means test in the basic benefit package. Social Security is a social insurance program that provides lifetime protection for workers and their families when income is lost because the wage earner retires, becomes disabled or dies. Critical to the concept of social insurance is that benefits are an earned right, rather than contingent upon income level. It is all to easy to say, after someone has completed their work life, -- "Oh, you have too much money, so we'll deny you benefits" -- but what those who advocate this approach forget is that this sends an insidious message to workers, particularly those entering the labor force -- If you do well, if you work hard, if you save -- you get penalized.

The bill also assumes that Social Security benefits are an indicator of comparative wealth, but this is not so. In particular, some beneficiaries have low benefits because they spent most of their working life in non-Social Security covered employment. Some with low Social Security benefits may be eligible for other types of pensions (typically public employee pensions and or military), or may have accumulated additional financial resources for their retirement. Other beneficiaries, with larger Social Security benefits, may have no other income sources. Thus Social Security benefits alone are not an accurate indicator of financial status. To more accurately assess wealth would require beneficiaries to give a full accounting of their income and assets. Aside from the increased administrative complexity, many beneficiaries would view this as intrusive and an unnecessary precondition for receiving an earned benefit. Additionally, the proposal would be difficult to explain to most beneficiaries.

Under this bill, most beneficiaries would see a decline in their standard of living, particularly those with moderate and middle incomes who are closest to this low threshold and who tend to rely on Social Security for the bulk of their retirement income. The income loss will be compounded over time because the base on which future COLAs will be calculated will be smaller for most beneficiaries.

Finally, the legislation may lead to efforts to further eliminate COLAs. A full or partial elimination of the COLA would rob the oldest, and generally the most vulnerable, beneficiaries of income protection at a time when it is most needed.

IV. Conclusion

Restoring Social Security's long-term solvency is vital to Americans of all ages. Since Social Security is in sound financial health for the foreseeable future, we have ample time to thoroughly analyze policy options and implement solutions. However, now is the time to begin that evaluation to promote a balanced solution that spreads the burden among beneficiaries, workers and employers as well as across generations.

We have the opportunity for education and debate on the need for maintaining Social Security's role as the base of retirement security. We must reject rash solutions -- such as means testing -- and instead choose options that continue to remain faithful to the core principles of this highly successful and exceedingly popular federal program.

Chairman JACOBS. Mr. Entin.

STATEMENT OF STEPHEN J. ENTIN, RESIDENT SCHOLAR, INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

Mr. ENTIN. Thank you, Mr. Chairman.

It is gratifying to see the Social Security Subcommittee address the projected deficits of the Social Security old-age and disability programs. But deficit reduction is not the only issue. How the deficits are eliminated is extremely important. A bad deficit reduction plan could hurt the economy and run counter to the basic goals of the Social Security program. A good deficit reduction plan could strengthen the economy and retirement income.

The subcommittee should bear in mind one important distinction. Raising payroll taxes or taxes on benefits will cost jobs. Trimming the growth of benefits will not cost jobs. Balancing the system with a 6 percentage point hike in the payroll tax over the next 75 years would cut employment by more than 4 million.

Mr. Pickle's bill is proof that it is possible to eliminate the deficit by trimming benefit growth. His bill is an excellent starting point. Benefits do not have to be cut from current levels. Only their rate of growth needs to be trimmed.

Per capita real benefits are projected to double under the current benefit formulas over time. As my first table, derived from the Social Security trustees' report, shows the normal retirement age benefit is less than $10,000 a year for an average wage worker retiring today. For an average wage worker retiring in 2072, the benefit is projected to be over $20,000 a year in 1994 dollars, over $30,000 with a spousal benefit, up to $40,000 for an average-wage two-worker couple, and up to $63,000 for an upper-income two-worker couple. There is no need for such benefit growth.

Combining and expanding the nontax provisions in the Rostenkowski and Pickle bills could eliminate the OASDI deficits without tax increases. In particular, the subcommittee should modify and adopt a package of three provisions: It should double the benefit formula reduction for average and above average wage workers in the Rostenkowski bill. It should endorse the increase in the normal retirement age to 70 in Mr. Pickle's bill, but with the full actuarial reductions normally associated with such increases rather than the scaled-back reductions in the Pickle proposal. It should adopt gradual reduction of the spousal benefit to 33 percent as in the Pickle bill.

This package would balance the system while still leaving real benefits in 2072 significantly higher than in 1994, as shown in the table. It would preserve jobs and cost workers less than a 6 point increase in the payroll tax paid over a working lifetime.

Other incentives for private retirement savings and earnings would round out the package and strengthen the economy. Incentives should include elimination or reform of taxation of Social Security benefits to end the current tax penalty it imposes on other retirement income from savings and wages, elimination of the earnings limitation, and expansion of IRAs and pension plans as in H.R. 3179.

The subcommittee should not adopt payroll tax increases, higher taxes on benefits, COLA reductions, freezes in the delayed retire-

ment credit, or increases in the minimum age for drawing benefits. The tax increases in the Rostenkowski bill would cost at least 3 million jobs and depress saving. Inflation should not be used to trim benefits. If benefits are too generous, the formulas that determine workers' initial benefits should be trimmed, but once people begin drawing benefits, they should be fully protected from inflation through COLAs.

The Penny-Margolies-Mezvinsky proposal to raise the minimum age for drawing benefits would cheat those who die relatively young out of all or most of the return on their lifetime contributions to the system, and would be inherently unfair. Scheduled hikes in the delayed retirement credit are needed to make the credit fair for people who delay drawing benefits past the normal retirement age and to blunt the damage done to work effort by the earnings test imposed on retirees age 65 through 69. Freezing the delayed retirement credit increases, as in the Pickle bill, would penalize older workers.

Ending Social Security deficits is not an issue that should divide us into separate constituencies. There are no competing interest groups here. People are young before they are old. It makes no sense to lower their aftertax incomes, employment opportunities, and ability to save while they are of working age in order to give them higher transfer payments after they retire. It is easy enough to eliminate the OASDI deficit without tax increases while promoting employment, private saving, and economic expansion. The sooner the necessary changes are made, the better for all concerned. Thank you.

[The prepared statement follows:]

REFORMING SOCIAL SECURITY IN A PRO-GROWTH MANNER

Statement to the Subcommittee on Social Security of the Committee on Ways and Means

September 27, 1994

by

Stephen J. Entin, Resident Scholar

Institute for Research on the Economics of Taxation

The Subcommittee could perform an important public service by developing a proposal to eliminate projected Social Security deficits by curtailing benefit growth and eschewing tax increases. Per capita real benefits are projected to soar under the current benefit formula, and could be trimmed without harming future retirees. Without changes in the benefit formulas, the system will keep slipping out of "actuarial balance" every few years, and payroll tax increases will be slipped through again and again to "balance" the system on a temporary basis. If the Subcommittee repeats the mistakes of the 1983 Social Security Amendments, which raised taxes and Social Security surpluses near term, but failed to reduce benefits and deficits sufficiently long term, it will reduce current and future employment and leave Social Security still broken. It is to be hoped that the Subcommittee will not focus exclusively on reducing the budget deficit, but instead will concentrate on what is best for the economy and what makes sense as objectives for the Social Security program.

The 1994 Annual Report of the Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds projects that, if Social Security retirement and disability benefits grow at the rate provided under the current benefit formulas, the payroll tax rate would need to be hiked by nearly 6 percentage points over the next 75 years. A 6 percentage point increase in the tax bite on wages would depress employment by roughly 3 percent below levels that are now projected, equivalent to about 3.5 million jobs in today's economy, and to more than 4 million jobs in the larger labor force of the next century.

The key to eliminating Social Security deficits without damaging the economy is to note the enormous growth in per capita benefits projected under current law, and to reform the benefit formulas. Benefits are projected to grow faster than inflation — doubling in real terms — under

the formulas in current law and the intermediate economic assumptions in the Trustees Report. As table 1 (lines 1 and 2) shows, an average-wage worker retiring in 2072 at the then normal retirement age of 67 will receive $20,050 in 1994 dollars, or $30,075 with a spousal benefit, more than twice the amounts of persons retiring in 1994 at the current normal retirement age of 65. If the spouse has benefits based on his or her own earnings, the average-wage two-worker couple could have up to twice the single benefit, or $40,100. By 2072, an upper income two-worker couple could be receiving $63,298 a year in 1994 dollars. There is no reason why social security retirement benefits need to keep pace with rising real incomes over the generations as people become richer and better able to save for their own retirement.

Two approaches. Representative Rostenkowski proposes to eliminate the projected deficits in the Social Security retirement and disability programs primarily through tax increases, although his bill contains a useful but modest contribution from benefit reduction. Representative Pickle and Representatives Penny and Margolies-Mezvinsky have proposed elimination of the deficits almost entirely through benefit reductions. Benefit reduction, if done right, is preferable to tax increases from both economic and social standpoints. However, the methodology for reducing benefits in the two bills by Mr. Penny and Ms. Margolies-Mezvinsky is seriously flawed, and COLA tampering in the Rostenkowski and Pickle proposals is also highly undesirable.

Mr. Rostenkowski relies chiefly on economically damaging payroll tax increases for 70% of his long-run fix, plus a modest reduction in the growth of retirement and disability benefits for average- and high-wage workers for the remaining 30%. Mr. Rostenkowski's payroll tax increases and increased taxation of retirement and disability benefits would drive up labor and capital costs for U.S. businesses, reducing their competitiveness in the global economy, depress economic activity, and reduce after-tax income for workers and their families.

Mr. Pickle proposes to eliminate the deficits almost exclusively by reducing benefit growth in various ways. His proposal avoids payroll tax increases and higher taxation of benefits. Unfortunately, his bill would penalize work effort by skilled older workers. The Pickle proposal is clearly the better starting point for Social Security reform. A superior solution can be devised

by taking, with some modification, the best of the non-tax elements from the Rostenkowski and Pickle bills. The bills submitted by Mr. Penny and Ms. Margolies-Mezvinsky should be set aside.

The Rostenkowski bill (H.R. 4245) would:

• Gradually reduce the generosity of the retirement and disability benefit formulas, primarily affecting average- and above-average-wage workers retiring in 2002 and beyond.

• Raise the normal retirement age from 66 to 67 twelve years earlier than current law.

• Increase the retirement and disability portion of the Social Security payroll tax by 3.9 percentage points over two phase-in periods between 2020 and 2058.

• Reduce the cost-of-living adjustment (COLA) for 1995 from a projected 3% to 2.5%.

• Reduce the income threshold at which 85 percent of Social Security benefits begin to be subject to income taxation, beginning in 1995.

• Cover all newly-hired employees of state and local governments starting January 1, 1995.

Reducing the generosity of the benefit formula can be done in an infinite number of ways. The Rostenkowski benefit formula change would gradually trim benefit growth for 50 years beginning in 2002 for middle- and upper-income workers. Low income workers would not be affected. By the 2050s, reductions in benefits would exceed 8% for workers earning the average wage, and would exceed 20% for workers earning the maximum wage subject to the payroll tax. Real benefits at the normal retirement age would still be nearly double those of 1994 retirees. A variant of this provision should be part of Social Security reform. The rest of the Rostenkowski bill should be rejected:

The Social Security retirement and disability portion of the payroll tax would increase in the Rostenkowski plan from 12.4% to 16.3% of payroll, raising the total payroll tax, including the 2.9% Medicare portion, from 15.3% to 19.2%. The higher payroll tax plus the 15% income tax rate in the lowest taxable bracket would impose a tax in excess of 34% on modest labor earnings. The hike in the tax rate would decrease employment by roughly 2 percent (equivalent to about 2.5 million jobs in today's economy, about 3 million jobs in the larger work force 70 years hence).

Trimming the 1995 COLA from 3% to 2.5% would cut all future years' benefits for people who have reached age 62 by 1994 (by reducing their basis for future COLAs). The saving to OASDI would die with that group, however, and would have largely evaporated before the System's deficits emerge. Tampering with COLAs is bad policy. If benefit growth is greater than society can afford, the benefit formula should be changed for future recipients with ample warning so that they may plan to work longer or to save more for retirement. Once people begin to receive benefits, the benefits should be fully protected by COLAs, not eroded randomly by inflation.

Income tax increases on social security retirement and disability benefits would be imposed by requiring taxpayers to begin to add up to 85% of benefits to taxable income at the current-law 50% phase-in thresholds (income of $25,000 single, $32,000 married) instead of the current-law 85% phase-in thresholds ($34,000 and $40,000) starting in 1995. The added taxes would go to the OASDI Trust Funds. The so-called tax on OASDI benefits is really a severe tax penalty on private income — interest, dividends, pensions, and wages — received by beneficiaries, because taxation of benefits is triggered by having "too much" other income. It can result in marginal tax rates in excess of 40% or 50% on income from savings and pensions, and, coupled with the social security earnings limitation, can raise taxes on wages above 100%. The Rostenkowski proposal would further worsen incentives to save and work, drive up capital and labor costs and hurt the economy.

Advancing the phase-in of age 67 as the normal retirement age saves money only on payments to persons eligible to begin drawing benefits between 2006 and 2022. The normal retirement age will rise under current law from age 65 to 66 for those reaching age 62 between 2000 and 2005, and will rise from 66 to 67 for those reaching age 62 between 2017 and 2022. The Rostenkowski proposal eliminates the time gap and phases in the increase to age 67 between 2006 and 2011. The proposal saves money during the baby boom's retirement, and is all right as far as it goes, but further hikes in the normal retirement age are needed to deal with more distant deficits.

Covering all new state and local government employees would produce a modest gain in revenue for OASDI near-term as they begin to pay the payroll tax, but little saving longer-term after they begin to draw benefits. It would add more workers to a flawed system, and raise state and local government labor costs, which would inevitably increase state and local taxes.

The Pickle bill (H.R. 4275) would:

- Gradually increase the normal retirement age to 70, but slightly trim the reduction in benefits that would normally accompany that change.
- Reduce disability benefits in proportion to the reduction in age 65 retirement benefits stemming from increases in the normal retirement age.
- Gradually reduce the spousal benefit from 50% to 33% between 2000 and 2016.
- Delay COLAs 6 months; shift to biennial COLA adjustment unless annual inflation exceeds 4%.
- Repeal further increases in the delayed retirement credit.
- Cover all newly-hired employees of state and local governments starting January 1, 2000.
- Raise benefits by 5% after 2023 for beneficiaries age 85 and above, and rationalize widows', children's, and disabled workers' benefits.

Raising the normal retirement age, in the Pickle proposal, would begin with the current law phase-in of the increase from 65 to 66 between 2000 and 2005, and continue non-stop at a rate of two months per year until the normal retirement age reaches age 70 in 2029 (versus 67 in 2022 in current law). The added 3 years until normal retirement age would sharply reduce out-year deficits. Raising the normal retirement age would reduce lifetime benefits, relative to current law, for workers at all earnings levels (see table 2), but would be far easier for lower income workers to bear than a hefty payroll tax increase paid over their entire working lives, or the diminished employment opportunities that a tax increase would entail. Unfortunately, Mr. Pickle would blunt the reform by trimming the "early retirement penalty" below actuarially fair levels to reduce the cut in benefits slightly for retirees age 62-65 (see table 2). This is ill-advised, creating more incentive to retire early. Indeed, the current actuarial reduction methods may be too generous in that regard already, if the high proportion of persons opting to claim benefits at age 62 is any indication.

Reducing benefit growth for disability insurance recipients is an over-due reform. When Congress raised the normal retirement age to 66 and 67, it made no corresponding cuts for disability insurance benefits. This provision would remedy the error.

The reduction of the spousal benefit to 33% from 50% is a reasonable adjustment. Benefits of low-earner married couples in 2072 would be 50% above the poverty level (versus 6% today) after the change, even with a rise in the normal retirement age to 70. The reduction would be less for spouses who would switch from the spousal benefit to benefits based on their own earnings.

The rest of the Pickle bill should be rejected:

Delaying the COLA six months and switching to a biennial adjustment unless the annual inflation rate exceeds 4% is a grab for trivial savings without any rationale. It is better openly to reduce the benefit schedule than to tamper with COLAs after people start to draw benefits.

Repealing currently scheduled increases in the delayed retirement credit would worsen the future impact of the Social Security earning limitation and deprive the economy of experienced workers. The delayed retirement credit raises retirement benefits by 4.5% for each year that one delays drawing benefits past the normal retirement age. The delayed retirement credit is also available to people who lose benefits after normal retirement age due to the earnings limitation, letting workers recoup some of the lost benefits over time. Scheduled increases in the delayed retirement credit to 8% by 2004 are needed to make it actuarially fair for persons who first draw benefits past normal retirement age and to nullify more fully the work disincentives imposed by the earnings limitation on persons age 65 to 69. Freezing the credit rate would perpetuate the ill effects of the earnings test for older retirees.

Raising benefits for retirees age 85 and older and the other minor adjustments in the Pickle proposal are consistent with the anti-poverty mission of the Social Security program, but are inefficient in that they are not targeted to needy recipients.

<u>The Penny / Margolies-Mezvinsky bills (H.R. 4372 and H.R. 4373)</u> would, respectively:

- Raise the normal retirement age to 70 and raise the minimum age for drawing reduced benefits from 62 to 67 by 2013.

• Provide COLAs only on an amount of social security benefits equal to that received by the lowest fifth of social security beneficiaries. The portion of an individual's benefits over that amount would not be indexed.

The Penny-Margolies-Mezvinsky bills certainly save money, but they do violence to fairness and subvert the purpose of the Social Security program.

Raising the minimum age for drawing benefits to 67 would deprive persons who die at ages 62 through 66 of any retirement benefits, and severely reduce lifetime benefits for persons who die at slightly higher ages. This adjustment would put an unfair share of the burden for balancing the system on a fraction of the population. When increasing the normal retirement age, it is better to leave the age for first drawing benefits at 62, with actuarially appropriate reductions for each additional year of early retirement. Actuarially fair reductions allow for earlier withdrawals without increasing total system outlays; a person receives the same value of lifetime benefits whether he or she begins to draw benefits early or at the normal retirement age, if he or she lives an average lifespan beyond the time that his or her benefits begin.

Eliminating the COLA for benefit amounts above the 20th percentile would shrivel the real value of benefits over time for average- and above-average wage earners after they begin to draw benefits. The decline would be unpredictable and would vary with the severity of inflation. The resulting uncertainty would greatly complicate retirement planning, which is what the COLA is designed to avoid. If cutting the average and maximum benefits relative to those received by lower-wage workers is the goal, it would be far better openly to alter the benefit schedule (as in the Rostenkowski proposal) than to tamper with COLAs after people start to draw benefits.

Better ways to fix the system. A better, partial reform of the Social Security System would trim basic benefit growth more than in either the Rostenkowski or Pickle proposal, without a payroll tax rate increase or any COLA tampering. Benefit reform would eliminate the projected OASDI deficit without collateral economic damage. Indeed, if coupled with more generous incentives for private retirement saving, it could lead to a far stronger economy. An alternative proposal might do all of the following:

• Reduce the generosity of the retirement and disability benefit formulas for average- and high-wage earners by up to twice as much as the Rostenkowski plan.

• Trim benefit increases further by increasing the normal retirement age to 70 by 2029, with the full actuarial reductions of benefits normally associated with the increase (rather than the scaled back reductions in the Pickle proposal) for early retirement at ages 62 through 69. Trim increases in disability benefits by the same proportion that retirement age increases cut retirement benefits. Gradually trim the spousal benefit to 33-1/3 percent.

• Eliminate taxation of Social Security benefits. Alternatively, exempt some indexed dollar amount of benefits from tax, and add the rest to taxable income without "thresholds". Either reform would end the current law tax spike that devastates the incentive to save.

• Eliminate or raise the earnings limitation and make the delayed retirement credit actuarially fair in order to lower labor costs and increase the pool of experienced workers.

• Give all saving IRA or pension-type tax deferrals to boost private retirement saving and reduce capital costs.

The benefit trimming would close the Social Security deficit but would leave real benefits in 2072 higher than in 1994. (See table 1, lines 5 and 6. Increases after-tax would be greater if taxation of benefits were eliminated.) The reduction in benefits relative to current law would affect workers at all earnings levels, but it would preserve workers' employment opportunities and cost them less than Rostenkowski's 3.9% increase in the payroll tax paid over a working lifetime. Easing taxation of benefits and saving and lifting the earnings limitation would increase GNP and be largely self-financing.

A more substantive overhaul of the Social Security System would be desirable from an economic perspective. It is time to return to the original purpose of the System, to keep the elderly from poverty, and to drop the pretense that the System is a national pension plan. A modest but ample guaranteed income floor should be set for the elderly, with strict means testing, paid for by general revenue or a diminished payroll tax. Retirement saving would be left to the individual, under tax deferred IRA or private pension provisions covering all private saving.

People are young before they are old. It makes no sense to lower their after-tax incomes, employment opportunities, and ability to save while they are of working age in order to give them higher transfer payments after they retire. It is easy enough to design a program that will eliminate the OASDI deficit without tax increases, while promoting employment, private saving, and economic expansion. The sooner the changes are made, the better for all concerned.

Table 1. Single Worker Benefits* in 1994 and 2072 Under Selected Reforms

Benefit regime, year of retirement, age at retirement	Benefits, constant 1994 dollars		
	Low earnings**	Average earnings**	Maximum earnings**
1. Current law, 1994, age 65 retirement	$ 6,074	$ 9,972	$13,797
Alternatives, 2072, age 67 retirement:			
2. Current law	12,103	20,050	31,649
3. Rostenkowski formula cut	12,103	18,362	25,266
4. Raise normal retirement age (NRA) to 70	9,682	16,040	25,319
5. NRA 70 & Rostenkowski formula cut	9,682	14,690	20,213
6. NRA 70 & 2x Rostenkowski formula cut	9,682	13,339	15,106

* Add 50% for current law spousal benefit (33% in 2072 under Pickle), and up to 100% for 2-worker couples.
**Low earnings = 45% of average. Average earnings = worker earned the average wage in OASDI-covered employment throughout career. Maximum earnings = worker earned maximum earnings subject to OASDI tax throughout career.
Source: 1994 Annual Report of the Trustees of the OASDI Trust Funds, intermediate assumptions; for alternatives to current law, author's derivation from data furnished by SSA.

Table 2. Benefits after early retirement adjustments for persons retiring at or before normal retirement age (NRA), under current law and hypothetical increases in the NRA to age 70.

	Age on first claiming benefits								
	62	63	64	65	66	67	68	69	70
	Benefit as % of full benefit allowed at NRA								
current law:									
NRA 65 (through 1999)	80	86-2/3	93-1/3	100					
NRA 67 (2022 & after)	70	75	80	86-2/3	93-1/3	100			
hypothetical increase to NRA 70:									
actuarially fair method	57	61	65-1/2	70	75	80	86-2/3	93-1/3	100
Pickle bill	60	63-1/2	67	71	75	80	86-2/3	93-1/3	100

Chairman JACOBS. Mr. Seidman.

STATEMENT OF BERT SEIDMAN, BOARD MEMBER AND CONSULTANT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. SEIDMAN. Thank you, Mr. Chairman.

I am Bert Seidman, a board member and policy consultant to the National Council of Senior Citizens, and from 1966 until retirement in 1990, I held a major staff responsibility on Social Security in the AFL–CIO. We thank you for this opportunity to offer comments on proposals to restore the long-term solvency of Social Security.

Before I do, in my former capacity, as now again, I am very pleased to be able to express appreciation to Mr. Pickle for all that he has done through the years. I know of his close association with people like Wilbur Cohen.

Mr. PICKLE. I have to go outside to meet constituents waiting for me, but I am glad I stayed this long to hear what you had to say.

Mr. SEIDMAN. I have a full statement which I request be included in the record of the hearing. This hearing could well bear the title of "restoring confidence in the solvency and fairness of the Social Security system" because that is central to consideration of the legislative proposals you are considering. It is also occurring in the midst of a series of hearings conducted by the Bipartisan Commission on Entitlement and Tax Reform, and from what we have learned the net result of its efforts may unfortunately reduce public confidence in Social Security.

There is an extraordinary drumbeat of attacks on Social Security and other social insurance and entitlement programs from a long line of generational warfare organizations with their doomsday message that benefits for the elderly, and especially Social Security, are bankrupting the Nation.

Added to this is the demise of health insurance reform in this Congress. Among the harmful consequences is the failure to ease the cost burdens on workers and on companies to provide health insurance coverage for both early and post-65 retirees, who then have to use their Social Security benefits in order to purchase coverage if they can.

NCSC is concerned about the effects of tax and benefit changes on the baby boom generation that is rapidly approaching retirement age, especially since reductions in real incomes and employer decisions have made many boomers ill prepared for a comfortable retirement through adequate personal savings or solid defined benefit pension plans. In any changes in Social Security, we must resist the temptation to make drastic cuts in coverage or benefits simply as a kind of punishment for the size of this generation.

We hear much about the alleged affluence of older Americans, but the median household income for persons age 65 or above is approximately half of that for younger persons and for other women half again as much as for the average elderly person. Millions of the elderly are poor or near poor and their poverty rate has been rising, not falling. In 1993, it was the highest in a decade. Thus, any cut or delay of the COLA can quickly push hundreds of thousands of older persons into full or near poverty.

This hearing is about specific legislative proposals which would significantly affect the long-term solvency of Social Security. Each

of these proposals—limiting COLAs, increasing the age for eligibility for OASDI benefits and early retirement reduced benefits, repeal of increases in the delayed retirement credit, reduction in spousal benefits, lower income thresholds for income taxation of Social Security benefits, benefits formula downward adjustments and payroll tax adjustments in the next century—all will have serious effects on both current beneficiaries and tomorrow's retirees.

We recognize that there are serious issues concerning the long-term financial viability of the Social Security system and they should be addressed prudently and objectively. But the system has always been flexible to meet changing needs, and that flexibility is based on the decision of the American people to provide, by law, protection against the risks of loss of income to old age disability or death. Social Security is an earned right. It is implemented by a system that prevents poverty for tens of millions of Americans.

In my written statement you will find detailed comments on the current legislative proposals, but I wish to say that we think that the course taken by the 1983 National Commission on Social Security Reform and the congressional action which followed it is the pattern which should be followed in this instance, except that now we are not facing an immediate crisis as the National Commission and the Congress faced in 1983.

In conclusion, Mr. Chairman, the NCSC along with millions of Americans young and old look to you for continued leadership in assuring a strong retirement income system under Social Security, and we stand ready to continue our support of that leadership in the years to come.

[The prepared statement follows:]

STATEMENT OF BERT SEIDMAN
CONSULTANT AND MEMBER OF THE BOARD
NATIONAL COUNCIL OF SENIOR CITIZENS

Thank you, Mr. Chairman, for this opportunity to offer comments on proposals to restore the long-term solvency of Social Security. The National Council of Senior Citizens was founded on the proposition that support for a viable social insurance system was, and is, the pivotal public policy issue affecting the lives of tens of millions of older Americans today and hundreds of millions of retired and disabled citizens in the longer term.

Mr. Chairman, in many ways this hearing could bear the title of "restoring confidence in the solvency and fairness of the Social Security system." We believe that the question of confidence is central to this Subcommittee's review of Social Security and to your consideration of legislative proposals. This hearing is occurring in the midst of a series of hearings conducted by the Bipartisan Commission on Entitlement and Tax Reform. It is fair to say that we can expect that Commission to make recommendations to the Congress regarding Social Security benefit levels, Normal Retirement Age, cost-of-living adjustments, and, perhaps, the introduction of a means test or an "affluence test" to receive benefits. The net result of the efforts of the Commission may well lower the level of public confidence in Social Security and the ultimate political response of the Congress and the Administration.

At the same time, and over the past decade, we have all witnessed the extra-ordinary drumbeat of criticism of Social Security and other social insurance and entitlement programs from a long line of "generational warfare" organizations. Whether the organization is called Americans for Generational Equity, the American Association of Boomers, Lead — or Leave, the Third Millennium or the Concord Coalition, the message is the same—benefits for the elderly—especially Social Security—are bankrupting the nation.

The result of the flow of misinformation and distortion, including the misleading "Findings" of the Bipartisan Commission, is an erosion of public confidence in Social Security and the ability of the Federal government to prudently manage the nation's Social Security resources.

Over recent months, Mr. Chairman, we have seen disturbing evidence of cross-generational loss of confidence in and misunderstanding of Social Security in surveys conducted by the American Council of Life Insurance and the National Academy of Social Insurance, among others.

To add to this mix is the apparent demise of health insurance reform in this Congress. If this assessment is true, we must note the impact of failed proposals to ease the cost burdens on workers and on companies to provide health insurance coverage for both "early" and post-65 retirees. As you know, the response of many companies to Financial Accounting Standard (FAS) 106 has been to plan to contract or drop health coverage for thousands of current and future retirees. This trend, together with the possibility of higher cost sharing for Medicare beneficiaries, will undoubtedly affect how the Congress views the long-range needs not only of any future health care reform program, but also the impact on the beneficiaries of Social Security and Medicare.

In addition, the Council is concerned about the effects of tax and benefit changes not only on current or near-term retirees, but also on the baby boomer generation that is rapidly approaching normal retirement age. While the jury is still out, we do know, partly as a result of the hearing conducted by this Subcommittee last September, that many millions of boomers are ill-prepared for a comfortable retirement through adequate personal savings or through solid, defined benefit pension plans. The overall level of pension coverage of the current work force is dropping in large measure because of the growth of contingent and part-time job patterns and the shift to service occupations.

While boomers may well experience a retirement that exceeds the standard of living of their parents, that standard of living may be significantly inferior to their real level of consumption during their working years. Among boomers, the less educated, the

single or divorced, the non-homeowners and the youngest may be at greatest risk. Any changes in Social Security must be sensitive to these aspects of heterogeneity and we must resist the temptation to consider drastic cuts in coverage or benefits simply as a kind of punishment for the size of this generation.

Income Status of Older Americans

Mr. Chairman, I would also like to note for the record the continuing condition of poverty and near-poverty for millions of older Americans. The median household income for persons age 65 or above is $17,160 in contrast to a household income of $35,639 for younger persons. The median income of women 65 or older is $8,189. In the period of 1991-1992, real income for households of persons age 75 and over dropped by 5.1 percent, and the median income of single males age 75 and over dropped 4.3 percent.

From 1989 to 1992, Mr. Chairman, the poverty rate for persons age 65 and above rose from 11.4 percent to 12.9 percent. More than 25 percent of persons age 65 and above are near-poor, that is under 1.25 times the poverty level. The overall trend for older persons shows the rate of poverty in 1993 the highest since 1983.

Thus, Mr. Chairman, it is clear that even "marginal" benefit changes, for instance a COLA payment minus one percent or two percent, can quickly push hundreds of thousands of older persons into full- or near-poverty.

Mr. Chairman, this hearing is about specific legislative proposals which would significantly affect the long-term solvency of Social Security. Each of these proposals—limiting COLAs, increasing the age for eligibility for OASDI benefits and early retirement reduced benefits, repeal of increases in the delayed retirement credit, reduction in spousal benefits, lower income thresholds for income taxation of Social Security benefits, benefit formula downward adjustments and payroll tax adjustments in the next century—are a response to either the 1994 Trustee Report on OASDI or to the myths of a near-bankrupt system.

As others have already indicated, the 1994 Trustees Report shows a deficit of 2.13 percent of taxable payroll to achieve actuarial balance of the OASDI program as a whole over the next 75 years based on the intermediate assumptions. The combined OASI and DI trust funds are "sufficient to enable the timely payment of benefits for about the next 35 years," in the words of the Trustees.

Mr. Chairman, the National Council knows that there are serious issues concerning the financial viability of the Social Security system as it is now constituted. The economy, social structure, political tides and the demographics of a nation of more than 250 million persons are in constant flux and interaction. However, the system has always been and was designated to be flexible to meet changing needs. But, that flexibility is sited on fundamental societal values contained in the concept of social insurance—the decision of the American people to marshal, by law, resources to provide protection against the risks and vicissitudes of life, including loss of income due to older age, disabling events or death. The Council stands on the belief that Social Security is an earned right, a benefit of an efficient and functioning governmental insurance system that continues to prevent personal and familial poverty for tens of millions of citizens, has enormous positive economic effects, promotes generational cooperation and solidarity and is key to a dignified and reasonably secure old age. Over the past six decades, Social Security has provided a progressive model for large-scale income redistribution.

Thirteen years ago, as you recall, Mr. Chairman, this nation faced a crisis in the financing and continuation of Social Security. We could count in months the date when we would face the possibility of suspending the issuance of checks. However, instead of panicking, the President and the Congress created the National Commission on Social

Security Reform and undertook a bipartisan analysis of the financing issues and proposed immediate and longer-term changes. The work of the Commission was undertaken on the understanding that its activities "should not alter the fundamental structure...or undermine fundamental principles" of the Social Security program. Its recommendations, not all of which did the National Council support, did not fundamentally alter the values of the system. Largely thanks to the implementation of those recommendations, we have a healthy and functioning system today. We trust that your work on the current proposals, or on bills submitted next session, and on the recommendations of the Bipartisan Commission on Entitlement and Tax Reform, will likewise take great care to preserve the fundamental strengths of the system and make changes only in the most prudent manner. There is much at stake.

H.R. 4245

The National Council has always found Representative Rostenkowski to be one of the most thoughtful lawmakers dealing with social insurance questions. However, the specific provisions of H.R. 4245, if enacted, would seriously distort the Social Security system to the detriment of many of its most vulnerable beneficiaries. It was our impression in April, when Representative Rostenkowski introduced his bill, that it was almost a panic reaction to the Trustees Report and to impending Bipartisan Commission findings. We see no cause for such panic.

Cutting the 1995 Social Security cost-of-living adjustment (COLA) by a half percent (.5%) is not a trivial matter to millions of older and disabled citizens who depend on Social Security for all, or almost all, of their income. This "one time" cut would, in fact, result in a permanent reduction in benefits for current recipients because it permanently reduces the base on which future COLAs are calculated. This benefit cut raises little money for the Trust Fund in the short-term and should be seen only as a symbolic whack at low-income and middle-class interests in behalf of a dubious "neutrality" in the entitlement debate.

Within a year of passage of President Clinton's budget-reconciliation package last summer, H.R. 4245 would increase tax liability for moderate-income Social Security beneficiaries. That reconciliation package, signed into law on August 10, 1993, increased the proportion of Social Security benefits subject to taxation from 50 percent of benefits to 85 percent of benefits for beneficiaries with incomes of $34,000 for single persons and $44,000 for couples. For lower-income beneficiaries with incomes of $25,000 for single persons and $32,000 for couples, tax liability for benefits remained at 50 percent. NCSC applauded this introduction of a modest progressivity factor in the taxation of benefits created by the budget-reconciliation package. The proposal would end that progressivity by requiring single beneficiaries with incomes of $25,000 and couples with incomes of $32,000 to pay income taxes on 85 percent of Social Security benefits. Let's give current law a reasonable chance to do what the Congress intended it to do.

NCSC opposes the staged advancing of the age of "normal retirement" to age 67 by the year 2011. Simply put, this will result in large benefit cuts for persons who are forced by corporate downsizing, illness or economic downturns to seek "early" Social Security benefits at ages 62 to 66. It is wrong to punish "early retirees" with benefit cuts when such a large portion of these retirees, especially low- and moderate-income persons, are involuntary retirees who are being increasingly forced from their jobs.

Advancing the normal retirement age (NRA) is also a component of H.R. 4372 and H.R. 4275, indeed to more radical levels than Mr. Rostenkowski's proposal. All of these proposals victimize those least able to defer retirement—persons with disabling illnesses, those working in downsizing industries, persons with skill deficits or persons working in regions undergoing economic downturns. Major company downsizing has been increasing even though the economy has shown surprising strength in the past year.

Again, unless public policy provides assistance to workers to extend worklives through life-long training assistance, incentives to employers to retain older workers and such measures as true pension portability, these NRA provisions are benefit reductions, pure and simple. They have nothing to do with longevity, which should not be confused with worklife extension. Enactment of NRAs pushed up to age 70 and the age for partial payments to age 67 would be astonishing. What will happen to millions of African-American males who, at age 20 in 1990, have life expectancies of less than 67 years? The results will be to push them and others into poverty. It guarantees increased welfare costs in future years and higher general fund deficits, and will fundamentally undermine confidence in the system among baby boomers expecting full benefits at ages 65 or 66. These proposals would cut benefits by 30 percent and more. The whole scheme would be an ill-considered disaster.

H.R. 4245 would also reduce benefits for average and higher income beneficiaries in coming decades. The National Council again suggests that such steps require further information regarding the true financial situation of beneficiaries 10 to 20 years into the future. We remain especially concerned regarding savings rates, the overall future value of real estate holdings, real income patterns, changes in pension programs and the prospects for health care cost containment for both younger persons and for retirees. H.R. 4245 benefit cuts should not be approved until the Congress has exhausted other approaches to solvency.

In that regard, the Council recommends that this Subcommittee consider the Trustees' Findings that a payroll tax increase of about one percent for workers and employers would result in actuarial balance for the next 75 years. In fact, a tax increase of half of this amount would buy us decades of time to fully consider financing needs for the total 21st Century. We need not wait until the year 2020 to take a full or partial tax step.

The Council does ask this Subcommittee to assure the American people that it will not consider reductions in widow's benefits, repeal of scheduled increases in the delayed retirement credit, or changes of COLAs to a biennial process. We would recommend consideration of provisions for reasonable increases in benefit levels for persons reaching advanced age, such as 85, to reflect the patterns of decline in asset income, private pension loss-of-value and the increased burden of the uncovered costs of chronic care needs.

Mr. Chairman, this Council and millions of Americans, young and old, look to you for continued leadership in assuring a strong retirement income system under Social Security. We stand ready to continue our support of that leadership now and in the years to come.

Chairman JACOBS. Mr. Bunning.

Mr. BUNNING. I want to thank all three gentlemen for their thoughtful presentations, particularly Mr. Entin. I happen to agree with most of the things that you brought up, particularly about looking at the overall aspects of the system. Thank you, gentlemen, for your input.

Chairman JACOBS. Mr. Houghton.

Mr. HOUGHTON. I have no questions.

Chairman JACOBS. Then the committee thanks the panel for its contributions.

The next panel is Edward Berkowitz, professor and chairman, Department of History, George Washington University; Robert J. Myers, former Chief Actuary, Social Security Administration; Max Richtman and Mary Jane Yarrington, senior policy analyst, National Committee to Preserve Social Security and Medicare.

Mr. Berkowitz, don't forget the big prize for the most concise testimony today.

STATEMENT OF EDWARD D. BERKOWITZ, PROFESSOR AND CHAIRMAN, DEPARTMENT OF HISTORY, GEORGE WASHINGTON UNIVERSITY

Mr. BERKOWITZ. As a historian who has studied the development of the Social Security program over time, I appreciate the opportunity to testify on the bills designed to restore the long-term solvency of the program.

I have recently finished a biography of Wilbur Cohen, who is the former Secretary of Health, Education, and Welfare who often testified before the subcommittee and the full committee. Studying his life and his interactions with Mr. Mills, I have gained a deep appreciation of the Committee on Ways and Means' stewardship of this program. It seems to me it is in keeping with that tradition that the subcommittee turns its attention to long-term solvency of Social Security.

I applaud the subcommittee's efforts. It is easy to dismiss the problem since the system has an apparent surplus at the present time, but I think to do nothing would be a mistake. Nor do I think that any radical action is necessary. We need to retain the basic program and if we act today, the adjustments we can make in it can be gradual because we have many years over which to correct the problems.

I would look for a formula in making the necessary changes. I would propose that the burden of long-term financing be born by present and future beneficiaries. We need to send a signal to today's workers that we are doing everything we can to preserve their benefits. In order to send the signal properly, I think it is very important that we not just hang out tax increases far into the future. As a historian, I have noted that the period between 1935 and 1950 was full of scheduled tax increases that weren't enacted. We can't allow a similar pattern of evasion to develop now.

It seems to me we have two big weapons we can use. For the present retirees we can adjust the COLA. The 1983 amendments provide a precedent for doing that. Mr. Rostenkowski's bill has a kinder and gentler version of adjusting the COLA, but I would recommend that something like that be done. We don't want the en-

tire burden of this adjustment to fall on the members of the baby boom generation and generations to follow.

The other big weapon is to adjust the retirement age for future retirees. I approve of the provision in Mr. Rostenkowski's bill to shorten the phasein period so that those born in 1960 would have a normal retirement age of 67. We already have that notion in the law, and it seems reasonable to get started a little bit earlier on that. Nor do I think we should neglect our traditional revenue raising measures such as the taxation of Social Security benefits and the expansion of coverage.

I would be wary for reasons I have already mentioned to play with the tax rates on the post baby boom generation. We simply don't know what the economy is going to be like in the next century in order to make that change now. It is all too easy for us to raise taxes on those who will come after us, and I would recommend against the proposed changes in the FICA tax rate.

Mr. Pickle's bill, like Mr. Rostenkowski's, has much to commend it. It makes more fundamental structural reforms in the program than does Mr. Rostenkowski's bill, such as the permanent reduction of spousal benefits. We may or may not want to make that change, but I think it should be debated within a framework of responding to issues of gender equity and changes in family structure. I am not sure whether financing a bill of this type is the right vehicle to make that change.

Similarly, let me comment on the disability provisions in Mr. Pickle's bill. The problem that he mentions in the bill is real. If we raise the retirement age but keep the same early retirement age, then disability benefits become all the more attractive as an alternative to early retirement benefits. Furthermore, as the baby boom generation ages, this problem will become all the more pressing, nor is the disability insurance program in particularly good shape now.

But I wouldn't like to see longrun major changes made in the disability program now because of a desire to solve long-term financing issues. Too often we have allowed the needs of the Social Security program to overwhelm the needs of people with disabilities. There is underway a great deal of thought about this matter, some initiated in the Committee on Ways and Means itself, on ways to reform the disability insurance part of the program so we don't have to consign people with disabilities to lives of inactivity. I would allow that discussion to develop a little bit before making changes in the disability insurance program.

Still, whatever items on the menu Congress eventually chooses I would urge that the members of this subcommittee and their colleagues make the choice. That way we can preserve the basic spirit of the program without bequeathing a financial crisis to those who will govern and benefit from this program in the next century.

Thank you.

Chairman JACOBS. Thank you, Mr. Berkowitz.

[The prepared statement follows:]

Testimony of Edward D. Berkowitz, Professor of History, George Washington University, before Subcommittee on Social Security, Committee on Ways and Means, Hearing on the Long-Term Solvency of Social Security, September 27, 1994

As a historian who has studied the development of the Social Security program over time, I appreciate this opportunity to testify on the bills designed to restore the long-term solvency of the program. I speak on my own behalf and not as a representative of any organized group. I am simply an academic who has written on various aspects of the program's history, including the disability insurance aspects of the program.

I have recently finished a biography of Wilbur Cohen, the former Secretary of Health, Education, and Welfare who often testified before this Subcommittee and before the Committee on Ways and Means. Studying his life and his interactions with Chairman Wilbur Mills, I have gained a deep appreciation of the Committee on Ways and Means's stewardship of the program.

It is in keeping with this tradition that the Subcommittee turns its attention to the long-term solvency of Social Security. I applaud the Subcommittee's efforts. It is easy to dismiss the problem, since the system has an apparent surplus at the present time. I think to do nothing would, however, be a mistake. If we are to use the reserve method of financing to assure the system's long-term solvency, we need to be mindful of long-range problems. We cannot allow the present surplus to lull us to sleep. To do so would be to hand the next generations a real crisis with little to do except to raise taxes or lower benefits. Now, before there is even a hint of a crisis, is the time to act. Hence I approve of the spirit that animates the bills under consideration by the Subcommittee.

Nor do I think that any radical action is necessary. We should not, for example, entertain notions of privatizing the program. We need to retain the basic program, which has served us so well, and make modest adjustments to it. If we act today, these adjustments can be quite gradual, because we have many years over which to correct the problems.

If I were to look for a formula for making the necessary changes, I would propose that the burden of long-term financing be borne by present and future beneficiaries. We need to send a signal to today's workers that we are doing everything possible to preserve their retirement and disability benefits. In order to send this signal properly, I believe we need to do more than hang taxes increases out into the future. As a historian, I might add that there was a period between 1935 and 1950 when the program simply did not honor its scheduled tax increases. We cannot allow a similar pattern of evasion to develop now.

It seems to me that we have two major weapons that will allow us to eliminate long-term problems. For present retirees, we can adjust the COLA. The 1983 Amendments provide a difficult but nonetheless effective precedent for skipping one COLA. HR 4245 is kinder and gentler, but I would recommend something similar to its provisions for a slight reduction in the COLA in 1995. We do not want the entire burden of adjustment to fall on the members of the baby boom generation and the generations to follow.

The other major weapon is to adjust the retirement age for future retirees. I approve of the provision in HR 4245 to shorten the phase-in period, so that those born in 1960 would have a normal retirement age of 67. We already have the notion of raising the retirement age in the law. It seems reasonable to get started a little bit earlier.

We should not neglect our traditional measures for raising revenues, such as the taxation of social security benefits and the expansion of coverage. Hence, I approve of those provisions in HR 4245.

I would be wary, for the reasons mentioned earlier, to increase taxes on the post-baby boom generation. In the first place, we have no way of knowing whether these tax increases will actually take place. In the second place, we have no sense of how future generations will respond to an increased tax rate or

whether an increased tax rate will make sense with regard in the economy of the middle of the next century. It is all too easy for us to raise taxes on those who will come after us. I would recommend against the proposed changes in the FICA tax rate.

HR 4275, like HR 4245, has much to commend it. It makes more fundamental structural reforms in the program than does HR 4245, such as a permanent reduction of spousal benefits. We may or may not want to make this change. I think, however, that it should be debated within a framework of responding to issues of gender equity and changes in family structure. I am not sure whether a financing bill is the right vehicle to make this change.

Let me comment in particular on the proposal for a gradual reduction in disability benefits that appears in HR 4275. The problem is a very real one. If we raise the retirement age but keep the same early retirement age, then disability benefits become all the more attractive as an alternative to early retirement benefits. Further, as the baby boom generation approaches retirement, pressure on the disability insurance program will grow. Nor is this program in particularly robust shape at the present moment, with a great upsurge in applications in the late 1980s and early 1990s. But I would not like to see major changes made in the disability program because of a desire to solve the long-term financing issue. Too often we have allowed the needs of the social security program to overwhelm the needs of people with disabilities. There is underway a great deal of serious discussion, some of it initiated by the Committee on Ways and Means, on ways to reform this program so that we do not consign people with disabilities to a life of inactivity. I would allow this discussion to develop before making changes in the disability insurance program.

Still, whatever items on the menu Congress eventually chooses, I would urge the members of this Subcommittee and their colleagues to make the choice. That way we can preserve the basic spirit of the program, without bequeathing a financial crisis to those who will govern and benefit from this program in the next century.

Chairman JACOBS. Mr. Myers.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. MYERS. Thank you, Mr. Chairman. I think that it is very praiseworthy action on the part of this subcommittee and on the part of the Members of Congress whose bills are before this hearing to deal now with the long-range problems of Social Security. By doing so, I think that this will help build up public confidence in the program's viability.

In my prepared testimony, I go into detail about the aspects of the short- and long-term solvency of the system. I also deal with the integrity of the actuarial estimates. These days, there are some people who are saying that the actuarial estimates have always been biased—namely, that they are always too optimistic. Although this has tended to be the case in the past decade, it hasn't always been true. I cite several examples where the estimates were really too pessimistic. I think that there is almost certainly a long-range problem, as you have heard. Yet, it is possible that this problem could be greater. It is also possible that this problem could be less than it seems to be now. If it is, with any graded-in changes, that can always be handled if the experience is favorable. Then, some of the grading-in changes wouldn't have to be done.

The Rostenkowski bill solves the problem equally by tax increases and benefit reductions. I strongly support the deferred gradual increase of the tax rates and also the coverage of new State and local employees. However, instead of reducing benefit outgo by cutting the benefit percentages, as in the Rostenkowski bill, I prefer the approach in the Pickle bill of raising the normal retirement age. Both tend to do somewhat the same thing, but psychologically I think that there is more reason to raise the retirement age, on the grounds that people live longer.

The Rostenkowski bill also has a small decrease in the 1994 COLA. This isn't really necessary from a financial standpoint, but I can recognize that one reason for it is psychological, saying everybody is going to bear a little of the pain, including the present beneficiaries.

The Pickle bill solves the problem almost entirely by benefit reductions and mainly by raising the normal retirement age, with which I agree thoroughly. I think that the way to solve demographic problems—is through demographic means.

The Pickle bill also has a number of other features of liberalizing the law, relatively minor ones, where changes seem to the author to be desirable. On many of these I agree, but some I am less enthusiastic about. One I would suggest is not desirable, namely, to change the COLA date so it is in June and has to be only every second year unless it is more than 4 percent.

Now, there is the desirable linking up of the COLA and the increase of the Medicare part B premium (SMI). If these are unlinked, the amounts of the benefit checks will bounce up and down. So both of these, I think, should always go into effect in January. There should always be a COLA in January to take care of any increase generally in the SMI premium rate.

The Penny and Margolies-Mezvinsky bills are interesting. The proposal to raise the retirement age is a good one, but I think they go about it a little too rapidly. However, the proposal for lower COLAs for higher-benefit people, I don't go along with. I understand what is in their thinking, but I would suggest that what they propose is impossible to do administratively. You can't know where the 80th percentile is in the month that you are going to do it. If they are going to adopt this principle, they should find another way of doing it, although I prefer uniform COLAs.

I recommend solving the problem equally by tax increases and benefit reductions. I wouldn't be opposed if it were all benefit reductions, but I lean toward splitting it equally, as was done in 1983. The tax rate increase should be deferred and gradual. The benefit reductions should be essentially by increasing the retirement age. I would do it a little more rapidly than in the Pickle bill although I would end at 70, or even a higher figure might not be bad.

Other changes I would suggest is reverting to pay-as-you-go financing, lowering the tax rates for the next 15 years. There is more money coming in now than is really needed and than may be desirable. I would increase the delayed retirement credit immediately to 8 percent, and I would urge you to look at a small, but inequitable thing in present law, the windfall elimination provision, which is desirable in general but works out very inequitably for some people—namely, those with small noncovered employment pensions and small Social Security benefits.

In conclusion, Mr. Chairman, despite my criticisms of the Rostenkowski and Pickle bills, I would strongly support either one of them if they were to be enacted rather than have nothing at all done. I hope that something will be done along these lines as soon as possible.

Thank you, Mr. Chairman.

Chairman JACOBS. Thank you, Mr. Myers.

[The prepared statement follows:]

STATEMENT BY ROBERT J. MYERS PRESENTED TO THE SUBCOMMITTEE ON SOCIAL SECURITY OF THE COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, WITH REGARD TO LONG-RANGE SOLVENCY OF THE SOCIAL SECURITY SYSTEM

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies during 1934-70, being Chief Actuary for the last 23 of those years. In 1981-82, I was Deputy Commissioner of Social Security, and in 1982-83, I was Executive Director of the National Commission on Social Security Reform. In 1983-85, I was Chairman of the Railroad Unemployment Compensation Committee, and in 1987-90, I was Chairman of the Commission on Railroad Retirement Reform. Currently, I am a member of the Prospective Payment Assessment Commission (an arm of the Congress, with responsibility for oversight of reimbursement of institutional providers of services under the Hospital Insurance program) and the Commission on the Social Security "Notch" Issue. My testimony, however, is solely on my own behalf.

In summary, I would like to say that I am extremely pleased that this subcommittee is holding hearings on this most important subject and on several bills which would significantly move toward restoring the long-range solvency of the Social Security program. This is something that should be done as soon as possible -- and can readily be done as well. The authors of the bills are to be congratulated for their efforts to do so.

First, I shall discuss the financial problems, both short-range and long-range, that confront the Social Security (Old-Age, Survivors, and Disability, or OASDI) program. Next, I will discuss the nature and the integrity of the actuarial cost estimates. Then, I will comment on the four significant bills whose purpose is to restore the long-term solvency of the OASDI program that are the basis of this hearing. Finally, I shall give my views as to the best method of restoring such solvency -- and, correspondingly, increase and maintain public confidence in the long-term viability of the program.

Short-Range and Long-Range Financial Status of OASDI

The 1994 Trustees Report presents extensive, authoritative information about the short-range and long-range financial status of OASDI. In the following discussion, I will not deal with the very serious financing problems confronting the Medicare program, because I believe that these should be dealt with separately.

As to the short-range situation, under all three estimates the situation is very favorable, and the assets of the OASDI Trust Funds build up steadily to relatively high levels -- perhaps, to more than is really needed. Thus, at the end of the year 2003, the combined trust funds will be as high as $1.2 trillion under the intermediate estimate, $1.4 trillion under the low-cost estimate, and $669 billion under the high-cost estimate. The size of the fund relative to annual outgo at the end of 2003 is 197% for the intermediate estimate, 282% for the low-cost estimate, and 108% for the high-cost estimate -- in all cases well above the requirements of a contingency reserve. The foregoing discussion assumes that the OASDI tax rate will be reallocated in the near future so as to give somewhat more to the DI Trust Fund, which has serious financing problems otherwise within the next year.

The long-range financing situation is, however, not nearly as favorable. Under the intermediate-cost estimate, the fund balance rises to a peak of $3.0 trillion in 2018 and then declines until being exhausted in 2029. Under the low-cost estimate, the fund balance increases steadily over the 75-year valuation period. However, under the high-cost estimate, the peak occurs in 2003 at $669 billion, and bankruptcy would occur in 2014 if no remedial action were taken -- which it most certainly would!

It should be noted that I consider total income -- from payroll taxes, income taxes on benefits, and interest on investments -- as compared with outgo. The element of interest receipts is as real and meaningful as the other items of income. This is especially so as a result of the provisions developed by the distinguished Chairman of this subcommittee and included in the recently enacted legislation creating the Social Security Administration as an independent agency -- namely, that such interest payments must be in the form of paper checks. As fiscal economists quite clearly say, "money is fungible." Thus, the receipts from such checks -- just like the employer checks for OASDI taxes -- cannot be said definitely to go for only one of the following elements: benefit payments, administrative expenses, or new bond issues.

Nature and Integrity of Actuarial Cost Estimates

Question is occasionally raised as to how valid are the actuarial cost estimates for OASDI and whether they are not always too optimistic. I assert that, over the six decades during which the program has been considered and operated, these estimates have always been made in a truly professional, unbiased, non-political manner. Only rarely have attempts been made by policymakers to bias the estimates, and these were always easily rejected. The actuaries in the Office of the Actuary always try to make the best and most reasonable assumptions and to use proper methodology in evaluating both the existing program and any proposed changes thereto.

Senatorial recognition of the role and past functioning of the Office of the Actuary is contained in Senate Report 103-221, January 25, 1994, Committee on Finance (beginning with the last paragraph on page 5). For example, it is stated, "The Committee considers independent analyses by the Office of the Actuary to be consistent with the general role and responsibilities of the actu-arial profession,and in the past has found these analyses to be very helpful in understanding the factors underlying estimates and trends in the Social Security program."

This is not to say that the actuarial projections have always been completely accurate in portraying what the future experience will be. Recently, it has been pointed out that the long-range actuarial balance of the OASDI program, as measured by when the balance of the combined trust funds would be exhausted, became worse and worse from one Trustees Report to the next ever since 1987. There are a number of reasons why this occurred -- chiefly, the worsening disability experience -- but this trend is not a certainty to continue in the future. A reversal could well occur as the actuaries continually examine the experience as it affects their assumptions.

Let me give two instances where the actuarial estimates turned out well as compared with experience. First, the original (1935) estimate of the cost in 1980 of the Social Security retirement and survivor (lump sums) benefits was 9.35% of taxable payroll. The actual 1980 experience cost for the OASDI program was 9.36%, or virtually the same. (Of course, there is some degree of non-comparability between these two figures, because benefit and coverage provisions were changed after 1935, such as the substitution of monthly survivor benefits for lump-sum ones.) Second, at the time of the 1983 Amendments, it was estimated that the balance in the OASDI Trust Funds at the end of 1992 would be $245 billion under the intermediate-cost estimate and $169 billion under the high-cost (or pessimistic) estimate. The actual balance was $331 billion, or $86 billion higher than the intermediate estimate and $162 billion higher than the high-cost estimate.

Rostenkowski Bill (H.R. 4245)

The approach taken by this bill to solve the long-range financing problems of OASDI is to share the burden equally as between benefit reductions and tax increases, and also to some extent as between present beneficiaries and future workers. The major provisions are as follows, along with my comments:

(1) Increase employer and employee tax rates gradually beginning in 2020, with the ultimate increase being 1.95% each in 2058 and after. This is an excellent change, with the additional revenues coming in when they are needed.

(2) Income taxability of benefits made a uniform 85% (instead of the present two-tier basis of 50% and 85%). This is a desirable change, so as to have benefits more nearly taxable in the same manner as are contributory private pensions, as well as simplifying the procedure.

(3) Cover all new state and local government employees. This is a very desirable change, so as to more nearly achieve universal coverage.

(4) Eliminate the plateau of age 66 in the increasing schedule for the Normal Retirement Age, for those attaining age 62 in 2010-20, so that an NRA of 67 is reached in 2016 (instead of 2027). This is a desirable change; the plateau was an historical accident (because it was thought, when enacted in 1983, that no more cost savings than from this much of a change was needed).

(5) Provide lower benefit factors for steady average-earnings and higher-earnings workers, beginning in 2002 on a gradual basis, such that ultimately replacement rates are about 8% lower for average earners and 20% lower for maximum earners. Although some change in this area is necessary, I believe that it would be much better to do so by gradually increasing the Normal Retirement Age more than present law provides. Further, although it is desirable that high income persons should receive relatively smaller benefits than lower income persons, the proposed reduction for maximum earners seems inequitably too much.

(6) Reduce the COLA for December 1994 by 0.5 percentage points. This relatively small change, even though effective over the lifetimes of all present beneficiaries, is not really necessary to provide adequate long-range financing because it brings in income mostly in the next decade, when it is not really needed. Nonetheless, it has a psychological appeal in having present beneficiaries "bear some of the pain."

Pickle Bill (H.R. 4275)

The approach taken by this bill is to solve the long-range financing problems of OASDI by benefit reductions principally. However, three small benefit liberalizations are included. The major provisions are as follows, along with my comments.

(1) Increase the Normal Retirement Age to 70 by the year 2029 (at the same time eliminate the plateau for those attaining age 66 in 2010-20. This is an excellent change, but I believe that the reduction factor for persons first claiming benefits more than 4 years before the NRA are slightly too large.

(2) The Delayed-Retirement Credit would be frozen at the 4-1/2% applicable for persons currently attaining age 65, instead of rising to 8% ultimately (2009). I believe that this action would not be desirable, and that the 8% DRG, which is the actuarial equivalent, should be applicable as soon as possible.

(3) Spouse benefits would gradually be reduced from the present 50% of Primary Insurance Amount to 33% for persons first eligible after 2015. I believe that this change (which is not applicable to widow's benefits) is not necessary or desirable. The present 50% basis seems reasonable. Moreover, increasingly over the future, relatively fewer spouse benefits will be awarded because more and more spouses benefits will have benefits in their own right.

(4) Cover all State and local government employees. This is a very desirable change, so as to more nearly achieve universal coverage.

(5) Establish age 65 as the upper determination age for disability benefits. This change, which would eventually lower the level of disability benefits (by gearing them to the reduced retirement benefits payable at age 65), may be necessary to control the costs of the DI program.

(6) The date for the COLAs would be advanced to June (from the present December) and would be effective only for a year when the adjustment is at least 4%. I believe that the COLA date should remain as of December, so as to concur with the date of increase of the Supplementary Medical Insurance premiums.

(7) Limitation on widow's benefits to the reduced benefit of the worker who retired early would be eliminated. Although there is merit in this proposal, I would instead prefer that the limitation be based on the retirement benefit of the retired worker determined on the basis of the number of months that benefits were actually received (instead of on the number of months potentially receivable before the NRA).

(8) Benefits for individuals aged 85 or over would be slightly increased, beginning in 2020, by as much as 5%. This relatively small change is probably desirable, because of the increased needs of the oldest of the aged.

(9) Child survivor benefits would be gradually increased, beginning in 2000, until ultimately (2025) they would be 90% of the PIA (as compared with the present 75%). This change is probably desirable, although it should be recognized that it would be advantageous only for 1-person and 2-person child-survivor families.

(10) Provide 5 drop-out years in computing average earnings for benefit purposes for all workers (instead of fewer years for some younger workers). I believe that this change is not desirable, because it would result in some workers with short earnings histories receiving unduly large benefits.

Penny, Margolies-Mezvinsky, Meehan, and Levy Bills (H.R. 4372 and 4373)

These two bills significantly reduce the benefit outgo of the OASDI program and thus help to solve its long-range financing problems. Much of the cost reduction comes in the next few years, when it is not needed for OASDI purposes -- but rather some persons believe that this will help the general budget deficit situation. The latter is not really the case, because any such reduction in OASDI benefit outgo will merely mean that its trust funds will be larger and thus will own more of the National Debt (and the general public will own correspondingly less -- and the size of the National Debt and the real budget deficit will both be completely unaffected).

The provisions of these two bills, along with my comments, are as follows:

(1) The Normal Retirement Age would be increased from the present age 65 (age 66 for those reaching that age in 2009-20 and age 67 for those reaching that age in 2027 and after) gradually to 70 for those reaching that age in 2021, beginning in 2002. Also, the early-retirement age would always be 3 years lower than the NRA (instead of always being age 62, as in present law). Although I believe that the NRA should be ultimately higher than in present law, the proposed increases are somewhat too rapid. However, I very much agree with the proposal to increase the early-retirement age in tandem with the NRA.

(2) COLAs for beneficiaries with Primary Insurance Amounts in excess of the 80th percentile of PIAs would be reduced to the COLA for the benefit that would be payable on such 80th percentile PIA. The theory behind this proposal is clear, but it would be impossible in practice to administer it. Further, I believe that full COLAs should be paid to all beneficiaries, so as to maintain the full purchasing power of their benefits.

My Recommendations

I believe that the long-range solvency of the OASDI program should be restored approximately equally by increases in tax rates and reductions in benefits. These changes should be on a deferred, gradual basis -- when the increased financing is really needed. The only exception that I would make is the more or less immediate coverage of all newly-hired state and local government employees (as in the Pickle and Rostenkowski Bills).

I propose raising the tax rates in sufficient amounts, as determined from the actuarial cost estimates, in a deferred gra-dual basis beginning in who attain such age in 2020 (as in the Rostenkowski Bill). I also propose increasing the NRA as in present law up to age 66 for those who attain such age in 2009 and then by 3 months per year (rather than the 2 months per year in present law) until it reaches age 70 (for those who attain such age in 2029), or even, if necessary, to age 72 (for those who attain such age in 2039).

Further, there are several other changes which I believe are desirable, even essential. First, the funding basis of the program should be changed back to pay-as-you-go -- as has been recommended quite logically by Senator Moynihan and others for several years. To do this, the combined employer-employee tax rate for OASDI (now, 12.4%) should be reduced by 0.8% for the next 10 years and 0.4% for the following five years, with gradual increases in 2020 and thereafter (as in the Rostenkowski Bill).

Second, the annual rate of the Delayed-Retirement Credits (now, 4.5% for persons attaining age 65 in 1994-95) should be increased immediately to the ultimate rate of 8% (which, under present law, it will be in 2009). Such 8% rate is the actuarial equivalent rate, meaning that the value of the benefits is about the same whether they are payable beginning at the NRA or at the later date of retirement. The cost of such a change would be relatively small.

Third, the Windfall Elimination provision, which results in reduced benefits for persons who have pensions from non-covered employment and who have less than 30 years of OASDI coverage, should be slightly liberalized. This provision now results in the use of a smaller percentage in the calculation of benefits for the first band of average earnings (as little as 40%, instead of 90%), except that the dollar reduction cannot exceed 50% of the "non-covered" pension.

This procedure works out equitably and properly for persons with long periods of such non-covered employment, but not for persons with short periods of both non-covered employment and covered employment, especially at low earnings levels. This is well pointed out by the Congressional Research Service Report, "What Amount of a Civil Service Retirement System Pension is Equivalent to a Social Security Benefit?", July 2, 1990. The solution to this inequitable situation is merely to reduce the "50% of non-covered pension" factor to 20% (which will still handle the basic purpose of eliminating windfalls for those with non-covered employment pensions based on long such service at middle and high salaries). The cost of such a change would be relatively small.

Conclusion

I sincerely applaud the efforts to achieve long-range solvency by the authors of the several bills which are the subject of this hearing. Although there are some features of the Rostenkowski and Pickle Bills with which I disagree, if it were a choice of either of these bills or none at all, I would enthusiastically support either one.

Chairman JACOBS. Mr. Richtman.

STATEMENT OF MAX RICHTMAN, EXECUTIVE VICE PRESIDENT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE, ACCOMPANIED BY MARY JANE YARRINGTON, SENIOR POLICY ANALYST

Mr. RICHTMAN. Mr. Chairman and members of the subcommittee, on behalf of the National Committee to Preserve Social Security and Medicare, thank you for scheduling this hearing. We appreciate this opportunity to affirm our faith in the Social Security system and our confidence that reasonable and modest changes can assure the long-term solvency of Social Security.

Social Security is this Nation's basic retirement instrument. Half of seniors would be poor without Social Security, and we are fortunate that a Social Security Advisory Council is conducting public hearing and debate with regard to Social Security's present and future needs. Major changes, we think, should await the findings and recommendations of the council.

Social Security is not the cause of the Federal deficit. Social Security is not responsible for any part of the national debt or interest on the debt. We feel that the greatest threat to Social Security is not its long-range financing needs but those who insist on using Social Security payroll taxes to finance deficit spending and deficit reduction.

We feel that modest, carefully balanced provisions can bring Social Security trust funds into long-term actuarial balance. Proposals to reduce COLAs and increase taxes are about deficit reduction, not Social Security financing. These proposals reinforce the false notion that Social Security is in a short-term crisis. If Congress' only response to budget-driven pressures is benefit cuts, current deficiencies would only be worsened, leaving an even greater percentage of seniors in poverty.

Restoring long-term solvency is essential, but it is not so immediately urgent that Congress should let itself be pressured into any premature action. There is time to address the Social Security program's needs. It is not procrastination to go slowly and carefully.

Preservation of Social Security for current and future generations is the purpose of our organization. National committee members would support a balanced proposal which protects Social Security for their children and grandchildren as well as themselves. We could, for example, support some elements of H.R. 4245 and H.R. 4275 as part of a balanced bill to assure Social Security's long-term stability. We would oppose unwarranted immediate reductions such as reduced COLAs. H.R. 4372 and H.R. 4373 introduced by Congressman Penny and Congresswoman Margolies-Mezvinsky, however, seem primarily designed to facilitate the continued use of the trust fund reserves to offset general revenue deficits.

With regard to specific provisions of the bills before you, we are concerned about reducing spouse benefits without proper attention being given to the impact on divorced spouses and the entire area of benefits to couples. One earner, two earners, divorced spouses, and surviving spouses we believe must be addressed and resolved in a manner that is accepted as equitable by married and unmarried workers.

As advocates of universal Social Security coverage, we support mandating coverage of all newly hired State and local employees. Concurrent with this expansion, it would be timely to review government pension offsets and disability limitations to relieve excessive reductions to persons eligible for both Social Security and an annuity for noncovered employment.

The Social Security amendments of 1983 increased the normal retirement age from 65 to 67. If long-term solvency requires it, accelerating this process we believe is not unreasonable. In view of the increase in life expectancy from age 65, a future increase to 68 also may be warranted. But a case has not been made for doing anything immediately. This is another case where Congress has the time to go slowly and be thorough. If the increase in the normal retirement age is to be accelerated or advanced further, Congress, we think, has a responsibility to revisit the impact of reduced benefits on workers for whom continuing in the work force is physically burdensome, if not life threatening.

The 1983 amendments required the Secretary of Health and Human Services to study the implications of increasing the retirement age for older workers in physically demanding occupations or those who are in ill health. The study also found these retirees on average relied on Social Security for more than half of their total income.

A balanced Social Security bill may call for smaller initial benefits to persons becoming eligible to retire early in the next century. However, a long-term 20 percent reduction in benefits we think to high income earners would threaten the support of Social Security on the part of younger persons entering the work force.

We also urge caution in legislating further reductions in benefits to disabled workers. Many disabled workers already require SSI as a supplement to inadequate disability benefits.

With regard to OASDI payroll taxes, the national committee supports a pay-as-you-go system with an automatic tax rate trigger mechanism to ensure adequate funding. We are adamantly opposed to means testing proposals such as those furthered by the Concord Coalition. We also view proposals like the taxation of benefits or reducing COLAs as an indirect form of means testing. Means testing at any level destroys the universality of the program and that we believe would destroy the universality of public support.

Thank you very much.

[The prepared statement and attachments follow:]

STATEMENT OF MAX RICHTMAN
EXECUTIVE VICE PRESIDENT
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE

Mr. Chairman and members of the Subcommittee. On behalf of the members and supporters of the National Committee to Preserve Social Security and Medicare, we want to thank you for scheduling this hearing. We appreciate this opportunity to affirm our faith in the Social Security system and our confidence that reasonable and modest changes can assure the long term solvency of Social Security.

In our testimony, we wish to make the following points.

- Social Security is this nation's basic retirement instrument. Half of seniors would be poor without Social Security. A re-examination of the basic program and consideration of needed improvements must go hand-in-hand with restoration of long-term solvency.

- Social Security is not the cause of the Federal deficit. Social Security is not responsible for any part of the national debt or interest on that debt. The debt and deficit are caused by general revenue spending in excess of general revenue receipts. Social Security is running a surplus which partially masks the extent of the Federal deficit. The greatest threat to Social Security is not its long-range financing needs, but those who insist on using Social Security payroll taxes to finance deficit spending and deficit reduction. If Congress' only response to budget-driven pressures is benefit cuts, current deficiencies will be worsened, leaving an even greater percentage of seniors in poverty. A case in point would be reducing spouse benefits without addressing the needs of divorced spouses.

- Restoring long-term solvency is essential, but it is not so immediately urgent that the Congress should let itself be pressured into premature action. There is time to address Social Security's needs. It is not procrastination to go slowly and carefully. Major changes should await the findings and recommendations of the Social Security Advisory Council.

- Measured changes in the retirement age, benefit computation formula and payroll tax rates could be part of a final proposal after a thorough review. The proposal must be balanced, provide needed improvements where appropriate, not create or exacerbate inequities, avoid worsening poverty rates and not rely solely on benefit reductions. National Committee members will support a balanced proposal which protects Social Security for their children and grandchildren.

Social Security Financing and the Federal Deficit

The National Committee testified before the Entitlement and Tax Reform Commission that we are not opposed to revisions in Social Security necessary to secure its long-term stability, but that we are strongly opposed to consideration of reforms in the context of reducing the deficit. Unfortunately, Social Security financing and the federal deficit are intertwined since Social Security continues to be used to finance part of the annual budget deficit.

Due to this concern, the National Committee commissioned research by Chambers Associates and members of the National Committee research staff on Social Security Financing covering Social Security and the Budget, the Evolution of Social Security Financing Principles, Proposals for Social Security Financing and Social Security Investment Options. We were pleased to make these monographs available to you, Mr. Chairman.

We know that you, Mr. Chairman, agree that Social Security is not part of the budget. Although we have succeeded statutorily in removing Social Security from the budget and from federal deficit calculations, this victory is pyrrhic given continued focus by policy makers and the press on the "consolidated" budget. We applauded your leadership in the truth-in-budgeting initiative which would have fairly accounted for Social Security payroll taxes and interest in the budget. We now believe Congress should revisit the issue of the best way to finance Social Security.

Two Social Security financing issues are closely related to financing the federal deficit. Under the 1977 and 1983 Social Security amendments, Social Security payroll taxes are higher than necessary today to accumulate a large reserve to help finance future benefits. Given the overall deficit, this "savings" is illusory. In effect, regressive payroll taxes rather than progressive income taxes are being used to finance the deficit. This is why the National Committee advocates returning Social Security financing to "pay-as-you-go" and collecting only what is necessary in Social Security payroll taxes to maintain a contingency reserve.

Congress, in fact, did not debate this issue in either 1977 or 1983 and concern about the deficit perverted debate on this issue in the early 1990s. Now National Committee members are concerned that some proposals to cut benefits, allegedly to improve Social Security's long-term financing, will be given undue weight because they will increase the surplus in the short-term, which will be used to further mask the deficit.

By law, annual Social Security surpluses are invested exclusively in special issue government bonds. There are good reasons historically for this, but investment policy should also be revisited in light of today's situation. This investment policy is akin to an employer funding a pension plan exclusively with company stock—a practice which ERISA prohibits.

Given the avalanche of complaints about Social Security spending, few people realize that Social Security is a creditor, not a debtor. The "net interest" category of the budget counts only interest paid to the public and completely ignores interest owed to government trust funds like Social Security. Debt held by government accounts is treated as if it was second class debt.

It seems that the only way to take Social Security off-budget is for Social Security to find alternative investments. While there are concerns about alternative investments, we believe alternative investments deserve further study.

While it is not the primary reason for advocating alternative investments, Social Security may also receive a higher return from alternative investments. When the trust fund was small, a higher return would not make much difference in Social Security financing. Given projected reserves, investment policy can make a material difference in financing Social Security. For example, an 0.5 percent increase in the real interest rate earned could mean a reduction of the OASDI payroll tax rate from 6.2 percent to 6.05 percent without affecting long-term Social Security financing.

Avoid Overreaction in Looking to the Future

Efforts of the Concord Coalition and other like-minded organizations together with the preliminary "findings" of the Entitlement and Tax Reform Commission have raised unwarranted public apprehension over the future of Social Security. There are legitimate issues to consider and they must be addressed in a timely and responsible manner. In the process, however, it is important not to give credence to distortions and exaggerations by a legislative response that is too hasty or that relies solely on unnecessary, unfair or excessive benefit reductions and/or means testing.

Earlier this year, the National Committee expressed concern that the introduction of H.R. 4245 played into the hands of those who erroneously allege that entitlements—principally Social Security and Medicare—are the cause of the Federal deficit. They are not. Proposals to reduce COLAs and increase taxes are about deficit reduction, not Social Security financing, and they reinforce the false notion that Social Security is in a short-term crisis.

Social Security and Medicare Part A are paying their own way. Each of these programs do face future threats—Medicare earlier than Social Security. Medicare's problems cannot be resolved except as a part of comprehensive health care reform. Social Security's future problems are easier, but will call for future program changes, increased revenue or, preferably, a balance of the two. Social Security's future needs are not unanticipated. Congress understood in 1983 that as the baby-boom aged, the long-term balance would have to be revisited. Although the long-range outlook worsened recently, it must be recognized that a program as large as Social Security will need periodic fine tuning and that the long-range outlook can improve just as quickly as it worsened. Cutting or capping cost-of-living adjustments or taxing a greater share of Social Security benefits of current taxpayers has more to do with the general revenue deficit than it has with protecting Social Security's long-range actuarial balance.

We are fortunate that a Social Security Advisory Council is currently conducting public hearings and debate and, prior to the end of 1995, will make recommendations with regard to Social Security's present and future needs. Even before this last Advisory Council completes its work, Social Security will become an Independent Agency with a permanent advisory board to make recommendations as to Social Security's long-term needs. We believe major changes should await the findings and recommendations of the Advisory Council.

Social Security is the foundation of retirement income on which other retirement instruments are to be built. Half of our work force has no other work-related retirement income protection and that situation is not expected to improve. For these reasons, if no others, the future of Social Security and the changes which will best enhance and preserve this essential program into the next century deserve calm and reasoned debate before any changes are made.

Modest, carefully balanced provisions can bring Social Security trust funds into long-term actuarial balance. This hearing is a beginning of the process of restoring public confidence in the future of Social Security and we are pleased to be a part of it. The drawback is that the bills before you today are being discussed in an atmosphere of entitlement-bashing unrelated to Social Security program needs and responsibilities.

Need for a balanced bill

Public attention has been focused on a perceived need to cut benefits, but benefit improvements also are required. Congressman Pickle's legislation does balance some recommended Social Security benefit reductions with modest improvements. For example, H.R. 4275 increases surviving child benefits from 75 to 90 percent of the primary insurance amount while offsetting the child's increase with a reduction in benefits to the parent caring for the child. These are changes we can support. There would be little or no reduction in total benefits to a surviving family, but when the parent was no longer eligible or, in the case of a disabled adult child, when the parent died, the child's benefit would increase. Increasing benefits for a sole surviving child from 75 to 100 percent of the primary insurance amount is a change we supported in testimony before this subcommittee five years ago.

Underlying Age, Wage and Disability Factors

One of the catalysts for the proposals reviewed in this hearing is the change in long-range actuarial balance since 1983. In 1983, the date of bankruptcy was 2060, beyond the 75-year projection period. In 1994, the trustees say the date of bankruptcy is 2029. The reasons for the change must be analyzed and understood because it exposes how closely Social Security financing interacts with national trends independent of the Social Security program.

Analysis of annual OASDI trustees reports reveals that the deterioration in the long-range balance is due to three factors—changes in methods for projecting income and cost, a decrease in real wage growth and, finally, a worsening in assumptions for disability. In other words, one major factor was an improvement in estimating and the other two are health and economic factors which can and should be turned around whether or not future benefit adjustments are required. The following table more fully illustrates the factors behind the change in long-term balance since 1983.

One step that can be taken to protect and enhance the Disability Insurance trust fund is to provide sufficient administrative appropriations to permit continuing disability reviews so that persons no longer disabled will be removed from the benefit rolls. But that is only part of the task. This nation must not accept unchallenged the increase which has occurred in the incidence of disability. The causes of disability must be attacked from both public health and work place safety standpoints. Rehabilitation and job placement must facilitate a return to the work force for those who are able to return. If these avenues are vigorously pursued, financing insurance benefits for those who are unable to work will not be as costly.

Similarly, before Social Security retirement benefits are excessively cut or the retirement age excessively raised, attention should be given to the twin forces of stagnant wages and premature departure from the work force which are reducing Old Age, Survivor, and Disability Insurance receipts. The national interest and trust fund receipts might be better served by increased attention to the need for job training and retraining and other proposals which lay the groundwork for long-term growth in productivity.

For those concerned with the impending increase in the ratio of seniors in the population, it is important to point out that demographic assumptions are more positive today than those forecast in 1983 because of predictions of increased immigration. This illustrates that the long-term economic and demographic situation is not static.

Change in Long Range Actuarial Balance and Year of Bankruptcy for OASDI Trust Fund and Reasons for Change, 1983-1994

Reason for Change	Change in Actuarial Balance	Change in Year of Bankruptcy
Valuation Date Each year a new year is added to the 75 year projection period. Because cost exceeds income for those future years, the actuarial balance declines. However, it has no effect on the year of bankruptcy.	-0.48	none
Legislation Coverage of state and local government employee earnings that are not covered by any state or local pension plan increased the actuarial balance. This was partially offset by a repeal of the stricter definition of disability for disabled widow(ers) and lower income from the taxation of Social Security benefits as a result of the 1986 tax reform law.	+0.10	+2 years
Demographic Assumptions The primary reason for the increase is that assumption for immigrants was increased. Legal immigration was increased as a result of a change in the immigration law and assumptions for illegal immigrants were included for the first time. The fertility assumption was lowered from 2.0 to 1.9 which decreased the balance. The affect of changes in mortality assumptions was negligible.	+0.71	+13 years
Economic Assumptions The primary reason for the decrease is lower real wage growth from 1.5 percent to 1.0 percent which is a reflection of a 20 year trend in reduced productivity growth. Other changes in assumptions also reduced taxable wages. These changes reflect a growth in non-taxable fringe benefits, a higher percentage of total wages above the taxable limit, a decline in labor force participation and an increase in unemployment.	-0.99	-15 years
Disability Assumptions These changes primarily affect the disability fund.	-0.65	-12 years
Methods The primary reason for the decline in the actuarial balance was updated work history information used to determine average benefit levels. Another significant reason for the decline was a correction of the method for determining the age of immigrants. Changes in actuarial methodology slightly improved the actuarial balance.	-0.87	-16 years
Other Factors	-0.12	-2 years
Total	-2.15	-31 years

Sums do not necessarily equal the sums of rounded components.
Prepared by the National Committee to Preserve Social Security and Medicare, September 1994
Sources: OASDI Trustees Reports, 1984-1994. National Committee calculation for change in year of bankruptcy.

Reactions to Proposed Changes

Preservation of Social Security for current and future generations is the purpose of our organization. We will support changes that are necessary, but cannot support quick fixes which are more designed to offset general revenue deficits than to assure a foundation of retirement income.

We could support some elements of H. R. 4245 and H.R. 4275 as part of a balanced bill to assure Social Security's long-term stability; we would oppose unwarranted immediate reductions such as a reduced COLA or, as in an earlier bill by Congresman Pickle, a repeal of further increases in delayed retirement credits.

Legislation introduced by Congressman Penny and Congresswoman Margolies-Mezvinsky, H.R. 4372, and H.R. 4373, however, seem primarily designed to facilitate the continued use of Social Security trust fund reserves to offset general revenue deficits. There is no reason to means test benefits so as to reduce, year-after-year, the purchasing power of retirement benefits. Nor is there a need for an

across-the-board five year jump in the earliest age of retirement. The National Committee in the past has urged this Subcommittee to eliminate the age 50 restriction for eligibility of a disabled widow benefit. What possible justification could there be for mandating that a disabled widow wait until age 55 to begin reduced survivor benefits, as provided in H.R. 4373?

Our detailed comments follow.

Reduced Spouse Benefits

We are concerned about H.R. 4275's provision gradually reducing spouse benefits to one-third of the wage earner's primary insurance amount, particularly because there is no provision for an offsetting benefit improvement for separated and divorced spouses. Recent research has disclosed that separated and divorced women are among the most impoverished of all the elderly living in poverty. And until the former spouse is deceased, a separated or divorced woman is not helped by other provisions of H.R. 4275 which increase widow benefits or roll-back a widow's early retirement reduction.

The entire area of benefits to couples—one-earner, two-earner, divorced spouses and surviving spouses—has been debated for years. Other than the recommendation for reduced spouse benefits, these problems are not addressed in the legislation before you. However, these issues must be addressed and resolved in a manner that is accepted as equitable by married and unmarried workers.

We raise this issue because the most significant problem of more adequately providing for survivors has been the question of financing. One recommendation which has been advanced is to reduce primary insurance amounts for all workers to finance higher benefits to surviving spouses. An alternative recommendation is to permit couples to voluntarily accept a reduction in spouse benefits or combined benefits as a means of financing increased survivor benefits. Before spouse benefits are reduced and the savings used for other purposes, perhaps the debate should be broadened to include how improved survivor benefits can best be financed.

Social Security Coverage of State and Local Employees

As advocates of universal Social Security coverage, we support Congressman Rostenkowski's proposal mandating coverage of all newly hired state and local employees. This proposal is frequently viewed as a way to raise revenue, especially in the short-run, but it is equally important for insuring adequate retirement income protection for everyone. Many state and local pension plans offer inadequate retirement protection, especially to low-wage or part-time employees. Concurrent with this proposal to ultimately assure universal Social Security coverage, it would be timely to review current Windfall Elimination, Government Pension Offset and disability provisions to ameliorate excessive reductions to persons eligible for both Social Security and an annuity from non-covered employment.

Increase in Normal Retirement Age

The Social Security Amendments of 1983 increased normal retirement age from 65 to 67 in two steps beginning with persons born after 1938. If long-term solvency requires it, accelerating the second step, as proposed in H.R. 4245 is not unreasonable. In view of the increase in life expectancy from age 65, a future rise in the normal retirement age to 68 also may be warranted. But a case has not been made for a precipitous five year jump. This is another area where Congress has more than ample time to go slowly and carefully.

Some of the proposals before you increase both the normal retirement age and the age at which early retirement benefits can begin. H.R. 4372 , for example, would raise early retirement age to 67 for workers and spouses and 65 for widows in conjunction with an increase to age 70 in the normal retirement age while H.R. 4275 would raise the normal retirement age to 70 and early retirement age to 67 while continuing to permit spouses and widows to begin benefits at 62 and 60, albeit with more drastically reduced benefits. H.R. 4245, raises the age for full benefits without raising current early retirement ages, but also provides for larger early retirement reductions. While we think an increase in the normal retirement age is reasonable, we recognize each of these approaches creates problems for which solutions have not yet been devised. In the first case, individuals who find it difficult to find employment must wait additional years before Social Security begins. In the second case, individuals who begin benefits early may have inadequate retirement income due to the steeper benefit reductions for early retirement.

Fifty-seven percent of current retirees begin benefits before age 65. Many of these workers have already been out of the work force for two or more years before applying for reduced, early retirement benefits. Not all of the departures were voluntary. Some of these workers were forced out by disability, others by corporate policy and still others by technological changes which made their skills obsolete. Others left early voluntarily, but after having spent a lifetime in physically demanding jobs.

A review of the earnings records of workers retiring early from physically demanding jobs might reveal that many of these workers have already been on the job up to 45 years. Other workers retiring at later ages may well work fewer years before retirement, yet not face actuarial reductions when they do retire. A longevity factor in the computation of benefits could be an appropriate counter-balance to lower benefits for retirees who continue to elect early retirement in spite of increases in the normal retirement age.

The 1983 Social Security Amendments required the Secretary of Health and Human Services to study the implications of increasing the retirement age for older workers in physically demanding occupations or ill health. The 1986 report, in summation, found:

> it appears that there will be some decline—but not a dramatic decline—relative to today in the proportion of retirement age workers who could find it difficult to extend their work lives a year or two in response to the increase in the age at which full Social Security retired-worker benefits are payable. If workers do not delay retirement and if there are not offsetting increases in other income sources, it appears that the average reduction in total income at retirement for workers in physically demanding jobs and/or ill health will be on the order of 6-7 percent when the new retirement age is fully phased in in 2027.

The significance of the anticipated income reduction is important in that the study found these retirees "tended to have median income equal to about three-fourths that of other new retirees . . . (and) Relied on Social Security for just more than half their total income on average. . . ."

The report did not offer recommendations for legislative changes because it would be many years before the provision became fully effective during which time more could be learned about the work ability of older persons, especially those in physically demanding jobs or ill health. If the increase in the normal retirement age is to be accelerated or advanced further, Congress has a responsibility to revisit the impact of reduced benefits on workers for whom continuing in the work force is physically burdensome if not life-threatening.

Revised Benefit Computation

Social Security benefit computation methods have changed many times since 1935 and will change again in the future in keeping with income, productivity and economic forecasts. A balanced Social Security bill may call for smaller initial benefits to persons becoming eligible to retire early in the next century, but it does not seem necessary to establish in law revised computation formulas for workers reaching retirement age 50 to 60 years in the future. A long-term 20 percent reduction in benefits to high-income earners, as in H.R. 4245 for example, would lower replacement rates to 18 to 20 percent of pre-retirement income and threaten support for Social Security on the part of young persons entering the work force.

One of the findings which came out of detailed research on the Social Security Notch is the extent to which long-term low wage workers were protected by application of the Special Minimum benefit computation method. However, the Special Minimum—which limits its scope to 30 years of employment—still leaves recipients with a benefit 20 percent below poverty. Expanding the scope of the Special Minimum method to 35 years of employment would bring full-career, low wage worker benefits up to the poverty level. These workers lacked income sufficient to save for retirement and are unlikely to have had the benefit of pension protection to complement Social Security. In any modification of computation methods, we urge the committee to take into consideration the need for improvement in the Special Minimum.

We would also like to express the need for extreme caution in legislating further reductions in benefits to disabled workers, as suggested in H.R. 4275.

Nearly one-fourth of all disabled women workers (and 13 percent of men workers) already require SSI as a supplement to inadequate disabled worker benefits.

Increased FICA Tax Rates

The 1983 amendments balanced Social Security financing over 75 years—but made no provision for future years. A majority of the public believed that Social Security's financing had been resolved into perpetuity. The public was not made aware that future increases, like those in H.R. 4275, were to be expected. With regard to OASDI tax rates, the National Committee continues to support a pay-as-you-go system with a contingency reserve and an automatic tax rate trigger-mechanism to insure that trust funds maintain a safe level. A comprehensive bill should project short-term FICA tax rate increases, but, again, it is unnecessary for current legislation to set rates for the second half of the next century.

Taxation of benefits

The National Committee opposes any increase in the taxation of Social Security benefits. Workers and families planned for retirement in the expectation that Social Security benefits would remain tax exempt. Initially, up to half of benefits were taxed if individual income exceeded $25,000 or that of couples, $32,000. This year, for higher income individuals and couples, up to 85 percent of benefits are taxed. Now it is proposed that the thresholds for taxation of up to 85 percent of benefits be lowered to $25,000 for individuals and $32,000 for couples. Two years from now, should seniors anticipate proposals to totally remove the thresholds?

Seniors continue to be burdened by high out-of-pocket medical costs—$3,000 a year, on average. Taxation of a greater portion of Social Security benefits further burdens seniors.

Taxation of 85 percent of Social Security benefits, even at the highest levels of income, is another aspect of current law in need of review. FICA taxes are paid in after-tax dollars. Upper income earners are being taxed a second time for dollars already taxed when earned. If the benefit computation is modified to reduce benefits to future retirees, additional dollars will be subjected to double taxation for more beneficiaries.

Means Testing of Benefits

The National Committee is adamantly opposed to the means testing proposals of the Concord Coalition, but we also view proposals like the taxation of benefits or the provision in H. R. 4373 to limit cost-of-living adjustments to an amount equal to the COLA due a beneficiary at the 20th percentile of benefits as indirect means tests.

Means testing at any level destroys the universality of the program and that, ultimately, will destroy universality of public support.

Benefits are progressive without means testing. By design, Social Security benefits are a balance of equity and adequacy. The computation method provides a proportionately higher level of benefits to low-wage workers than average wage workers who, in turn, receive a proportionately higher benefit than high-wage workers. In fact, the 1979 Social Security Advisory Council noted that, under the current formula, lifetime high income earners would not receive an equitable rate of return on additional taxes paid. Means testing, such as the proposed flat rate COLA in the Penny—Margolies-Mezvinsky bill, H.R. 4373, would compress benefits, further exacerbating deficiencies in the equity and adequacy balance. With flat rate COLAs, over time, average and upper-income retiree replacement rates would fall below the percentage of pre-retirement income that current law intended. Proponents of these proposals also must believe that retirees with high benefits have other sources of income. While this frequently is the case, it is not universal, especially for older widows.

Conclusion

We hope Congress proceeds with careful study. It is essential that we maintain this great social insurance program. Millions of Americans depend upon it as a financial base for retirement security and these millions want the system sound for the millions who will follow.

URGENT

SPECIAL REPORT

ENTITLEMENT CUTS:

HOW WILL SOCIAL SECURITY AND MEDICARE SURVIVE?

ENDORSEMENTEEEEEEEEEEEEEEEEEEEEZ
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CSZ 1EEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEZ

ATTENTION:

TITLE FULLNAME/FULLNAMEXXXXXXXXXXXXX. POWERFULEEEZ
SPECIAL INTERESTS ARE SPENDING MILLIONS OF DOLLARS
LOBBYING CONGRESS TO PROTECT THEIR INTERESTS ATEEZ
THE EXPENSE OF SOCIAL SECURITY AND MEDICARE. EEEEEZ

PETITION TO:
THE UNITED STATES CONGRESS ENCLOSED

REPLY WITHIN TIME SHOWN

Prepared and mailed by the National Committee to Preserve Social Security and Medicare, a nonprofit, tax-exempt organization, 2000 K Street, N.W., Suite 800, Washington, D.C. 20006. The National Committee is independent of Congress, every government agency, and all political parties.

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MAILED FROM ZIP CODE 54303

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U.S. POSTAGE PAID
NATIONAL COMMITTEE
TO PRESERVE
SOCIAL SECURITY
AND MEDICARE

NATIONAL SENIORS' SURVEY

SURVEY FOR:	TITLE FULLNAME/FULLNAMEEEEEEEEEEEEEEZ
TITLE:	ENDORSEMENTEEEEEEEEEEEEEEEEEEEEZ TITLE FN/FN. FUNC TITLEEEEEEEEEEEEEEEEEEZ
ADDRESS:	SEC ADD 1EEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEZ PR ADD 1 (FLOAT UP)EEEEEEEEEEEEEEEEEEEEEZ
CITY, STATE, ZIP	CSZ 1EEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEEZ

SURVEY DISTRICT:
CITYEEEEEEEEEEEEEEEEZ,
STATEXPANDEEEEEZ

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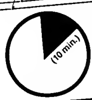
FORM NO: NSS-94

YOUR IMMEDIATE RESPONSE REQUESTED

PLEASE RETURN WITHIN: 48 Hours

PLEASE ALLOW AMOUNT OF TIME INDICATED FOR COMPLETION OF SURVEY



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U S Postage Paid
National Committee
to Preserve
Social Security
and Medicare

MRS. SAMPLE A SAMPLE
SAMPLE COMPANY
1234 ANY STREET
ANYTOWN, US 00000

YOU HAVE A BIG STAKE IN SOCIAL SECURITY AND MEDICARE.

YET YOU WERE NOT ONE OF THE NEARLY 13,000,000 SENIORS WHO ANSWERED MY PREVIOUS LETTERS.

I THINK I KNOW WHY.

Prepared and mailed by the National Committee to Preserve Social Security and Medicare, a nonprofit, tax-exempt organization, 2000 K Street, N.W., Suite 800, Washington, D.C. 20006. The National Committee is independent of Congress, every government agency, and all political parties.

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Who really cares how cuts in Social Security and Medicare will impact you?

Martha A McSteen
Office of the President

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NATIONAL COMMITTEE
TO PRESERVE
SOCIAL SECURITY
AND MEDICARE

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CITIZEN AND COMMUNITY IMPACT SURVEY ENCLOSED
FOR VAR CITY(20) RESIDENTEEEEEEEEEEEEEEEEEEEZ
TITLE FULLNAME FULLNAME(36)EEEEEEEEEEEEEEEEEEZ

COMPLETION REQUESTED: 3 days

Who does not?

Chairman JACOBS. Mr. Bunning will inquire.

Mr. BUNNING. Well, I don't have any inquiry of Mr. Richtman or Ms. Yarrington. But I do have some questions about some mailings that their organization sent out.

I have a copy in front of me, 10 pages, which was sent directly to my mother-in-law. She was wondering what in the world is going on with Social Security after having read it. And I told her that nothing was going on in Social Security, that Congress made it an independent agency and that would, in my opinion, serve the Social Security recipients and beneficiaries in a better manner. Prior to that, Social Security was a political football that was being bounced back and forth among different administrations, with different commissioners. After having read most of the 10 pages of this mailing, including the mail covers, I am wondering if you would like to comment on it?

Mr. RICHTMAN. I don't know which mailing you are talking about.

Mr. BUNNING. The one that was sent dated September 13, 1994.

Mr. RICHTMAN. I would be better able to comment if I could look at it.

Mr. BUNNING. Be my guest. I also have your statement.

[The mailing referred to follows:]

National Committee to
Preserve Social Security
and Medicare

Notice of Public Hearing
Request for Testimony

Hearing Date: September 1994

Government Agency:

President's Commission on
Entitlements and Tax Reform

Subject:

Proposed Cuts in Social Security
and Medicare, Increased Taxation
of Benefits

Personal Testimony Requested From:

Please Reply Within 48 Hours

MRS SAMPLE A SAMPLE
SAMPLE COMPANY
1234 ANY STREET
ANYTOWN, US 00000

Prepared and mailed by the National Committee to Preserve Social Security and Medicare, a nonprofit, tax-exempt organization, 2000 K Street, N.W., Suite 800, Washington, D.C. 20006.

The National Committee is independent of Congress, every government agency, and all political parties

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MEMO **Why do we ask for Special Donations?**

National Committee to Preserve Social Security and Medicare
2000 K Street, N.W. Suite 800
Washington, D.C. 20006

Dear National Committee Member,

Your membership dues in the National Committee have always been only $10 a year.

We haven't increased them in over 10 years since our founding because many of our Members simply can't afford more.

We ask for additional donations on an ENTIRELY VOLUNTARY basis because annual dues fall far short of funding our work on your behalf.

We don't expect you to contribute each time we ask. But we hope you will do so when you can — as you always have in the past.

There are 535 Senators and Representatives and hundreds more in the Administration and elsewhere with whom we have to deal. We simply cannot cope with this work without special donations.

So please remember, we ask only because extra donations are essential — but we only expect you to help when and as you can.

We are deeply appreciative for the extra help we have received and thank you very much for it.

Sincerely,

Martha A. McSteen

Martha A. McSteen, President

12345678000194201000010000X
MRS. SAMPLE A SAMPLE
SAMPLE COMPANY
1234 ANY STREET
ANYTOWN, US 00000

Dear Mrs. Sample.

We cannot allow some of the members of the President's Commission on Entitlements and Tax Reform to use scare tactics to stampede Congress into cutting Social Security and Medicare benefits. Your personal testimony will help give the Commission all of the facts.

Martha A McSteen

PLACE STAMP HERE

NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
2000 K Street, N.W., Dept. 42010
P.O. Box 37075
Washington, D.C. 20013-7075

PRINTED ON RECYCLED PAPER

National Committee to Preserve Social Security and Medicare
Martha A. McSteen, President
202-822-9459

MRS. SAMPLE A SAMPLE
SAMPLE COMPANY
1234 ANY STREET
ANYTOWN, US 00000

DEAR MRS. SAMPLE,

Your personal testimony is needed in Washington immediately on issues of great importance to the future of Social Security and Medicare.

Please complete the Entitlements Commission Personal Testimony Report which I have enclosed and rush it back to me in the pre-addressed envelope.

Your testimony will be submitted to the President's Commission on Entitlements and Tax Reform which is meeting right now in Washington, D.C.

I have written to you about this Commission before because I am extremely concerned about it.

The Entitlements Commission could make recommendations leading to increased taxes on Social Security and Medicare benefits, higher Medicare premiums, and the reduction or elimination of Social Security cost-of-living adjustments (COLAs). This could cost many retired Americans thousands of dollars.

And you must remember, this Commission was formed as part of a political deal between the White House and Senator Bob Kerrey of Nebraska.

The White House wanted Senator Kerrey's vote on the President's budget last year — and Senator Kerrey was holding out because he wanted deeper cuts in Social Security and Medicare — so they made a deal.

Kerrey voted for the budget and the President created the Commission on Entitlements and Tax Reform — and named Kerrey as Chairman.

A recent article in the *Detroit News* noted that "... Despite its dull name, the commission is political dynamite and Kerrey, as its aggressive Chairman, is playing with matches."

Just this year, Senator Kerrey introduced legislation to cut Medicare by

(please turn page)

$94 billion over five years. He calls entitlement programs like Social Security and Medicare "the biggest problems we can't talk about."

Well, some people may not want to "talk about it," but you and I must speak out — right now — before it is too late!

Sadly, Senator Kerrey is not the only member of this powerful Commission who is openly hostile to Social Security and Medicare.

The Vice Chairman of the Commission is Republican Senator John Danforth, who recently voted for a Balanced Budget Amendment that could have reduced your Social Security benefits by $1,000 per year.

> In fact, eight of the Senators and six of ten Representatives on this Commission voted for this very same amendment — over the strong protest of your National Committee and other organizations representing older Americans.

The Commission also includes one of the biggest benefit cutters in Washington — Peter Peterson, a corporate executive, former Secretary of Commerce and President of the big-business backed Concord Coalition.

In a report entitled "The Zero Deficit Plan," the Concord Coalition argues against raising taxes on big business and the wealthy and **for** cutting Social Security and Medicare benefits for middle-class seniors.

You can see why I am so worried. Big businesses and avowed anti-senior benefit cutters are well represented on the Entitlements Commission.

Guess who was left out? Senior organizations, including the National Committee. So seniors and the disabled who rely on entitlements are not represented. That alone tells you the direction of the Entitlements Commission.

Believe me, this Commission is no joke. It will issue recommendations to the President and Congress by December 15, and if it recommends severe cuts in Social Security and Medicare, we are in real trouble.

Congress is desperate for ways to reduce the federal deficit ... and some members of Congress hope to use this Commission to provide "political cover" for proposals to cut Social Security and Medicare.

They have already started to do exactly that.

After the very first meeting of the Entitlements Commission on June 13, a "Draft of Commission Findings" was issued.

This report is filled with frightening language which unfairly blames Social Security and Medicare for nearly all of our government's financial problems. Here are just some of the charges leveled in this report:

"To prevent a fiscal crisis, a bipartisan coalition of Congress, led

by the President, must enact <u>fundamental reforms of entitlement spending</u> and finance. Prompt action is essential for fair and balanced long-term reform."

> "By 2010, if action is not taken, entitlements and interest on the national debt will consume almost all government revenues."
>
> "By 2030, Medicare, Medicaid, Social Security, and federal employee retirement programs will consume all federal revenues. Total federal outlays would exceed 37% of the economy, compared with outlays of 22% and revenues of 19% today."
>
> "If action is not taken soon, America will be forced to choose between doubling every federal tax and cutting more than half of every federal program and entitlement to balance total federal outlays and revenues."

These findings are misleading and flawed. Social Security is a self-financing program with a dedicated payroll tax. It does not add to the federal deficit. The Commission's statistics are only true if Social Security, which pays for itself, is lumped in with all other entitlement programs.

In fact, the Social Security program has run a surplus averaging 50 billion dollars per year over the past five years.

Only one conclusion can be drawn from the Commission's early findings — deep cuts must be made in Social Security and Medicare or disaster will result.

<u>These are exactly the type of scare tactics</u> that could be used to stampede Congress into cutting or taxing your benefits.

The big business Concord Coalition and other entitlement cutters would like the Commission to recommend a series of benefit cuts, including:

1. "Means Testing" Social Security and Medicare, which would reduce benefits for middle-class and upper-income seniors, thus transforming these social insurance programs into welfare programs.
2. Raising taxes on Social Security benefits again and taxing the insurance value of Medicare benefits for the first time.
3. Increasing Medicare premiums and raising Medicare deductibles.
4. Reducing or eliminating Social Security cost-of-living adjustments (COLAs).

Many of these issues are not new to you. We have been fighting these

kinds of benefit cuts for years.

Most of the time we win. In 1985, 1987, 1989, 1990 and 1993 we helped beat back serious attempts to cut or freeze your Social Security COLA. **Those combined efforts have saved the average retiree $2,000.00.**

But sometimes — when we don't all pull together — we lose. Taxes were raised on Social Security benefits last year and Medicare Part B premiums were increased, over our strong objections.

We cannot afford to lose this time ... or we could have a package of benefit cuts far more severe than we have faced before.

We need your help to win ... and we need it NOW!

The Entitlements Commission is holding public hearings in Washington, D.C., throughout September. The National Committee is scheduled to testify in September.

The testimony of the National Committee to Preserve Social Security and Medicare is important ... but **your** testimony is even more important.

Your personal testimony on how proposed cuts in Social Security and Medicare will affect your daily life, your health and the security of your retirement is absolutely necessary to our cause.

Big business groups like the Concord Coalition will be sending high-priced lawyers and politically connected lobbyists to testify in favor of their proposals to cut your benefits.

... AND, THE CONCORD COALITION IS ALREADY WELL-REPRESENTED ON THIS COMMISSION. UNFORTUNATELY, MRS. SAMPLE, YOU ARE NOT! AT LEAST NOT UNTIL YOU ARE HEARD FROM ...

... because politicians know that there is strength in numbers. If we present the Entitlements Commission with personal testimony from hundreds of thousands of older Americans, they will think twice before endorsing proposals to drastically cut Social Security and Medicare.

So, please return your Entitlements Commission Personal Testimony Report in the yellow pre-addressed envelope, today.

Your report will let the Entitlements Commission know exactly what you think about all of the proposals to cut or tax your benefits.

AND, MRS. SAMPLE, IF YOU POSSIBLY CAN, I HOPE THAT YOU WILL ALSO INCLUDE A CONTRIBUTION OF $10 OR $15 WITH YOUR REPORT.

Your generous past contributions have enabled us to make great progress

lately in protecting your benefits, by:

1. Generating hundreds of thousands of Message Grams to the Congressional leadership opposing cuts in Social Security and Medicare.

2. Placing a two-page ad in the *Washington Post* on September 7 in defense of Social Security and Medicare.

3. Reaching out to millions of older Americans, like you, to collect personal testimony to present to the Entitlements Commission.

But the struggle to protect our retirement security is far from over.

RIGHT NOW IS THE TIME TO PULL TOGETHER AND TURN UP THE HEAT ON CONGRESS. YOUR CONTRIBUTION OF $10 OR $15 WILL HELP US DO IT.

Your Social Security and Medicare benefits are called entitlements for a very good reason. You worked for them, you paid for them, you earned them, the government has promised them to you, and now you are **entitled** to them ... and you must be willing to fight for them.

THESE BENEFITS ARE WORTH THOUSANDS OF DOLLARS TO YOU. PLEASE SEND $10 OR $15 TO HELP US DEFEND THEM.

Time is of the essence. The Entitlements Commission needs your personal testimony immediately.

Please return your Personal Testimony Report, together with your most generous possible contribution, today.

Sincerely,

Martha A. McSteen

Martha A. McSteen, President
National Committee to Preserve
Social Security and Medicare

P.S. MRS. SAMPLE A SAMPLE, IF THE ENTITLEMENTS COMMISION RECOMMENDS SEVERE CUTS OR NEW TAXES ON YOUR SOCIAL SECURITY AND MEDICARE BENIFITS, THE RESULTS COULD BE DEVASTATING. PLEASE HELP US PREVENT THIS FROM HAPPENING. RETURN YOUR PERSONAL TESTIMONY REPORT TODAY. AND IF YOU POSSIBLY CAN, INCLUDE A CONTRIBUTION OF $10 OR $15 TO HELP US CONTINUE GRASSROOTS CAMPAIGN ON YOUR BEHALF.

Prepared and mailed by the National Committee to Preserve Social Security and Medicare, a nonprofit, tax-exempt organization, 2000 K Street, N.W., Suite 800, Washington, D.C. 20006.

The National Committee is totally independent of Congress, every government agency, and all political parties. This organization has not been approved or endorsed by the federal government, and this offer is not being made by an agency of the federal government.

Contributions or gifts to the National Committee are not tax-deductible. You need make no special contributions other than annual dues.

In fiscal 1993 the National Committee spent its budget in the following way: legislative advocacy 32%, educational activities 30%, SPRY project 1%, fund-raising 19%, administration 15%, reserve 3%. Detailed financial reports are available from the National Committee at 2000 K Street, N.W., Suite 800, Washington, D.C. 20006, 202-822-9459, and from the charitable solicitations departments of most states; New York residents should write the NYS Department of State, Office of Charities Registration, 162 Washington Ave., Albany, NY 12231; Virginia residents may obtain a copy of a financial statement from the State Division of Consumer Affairs, P.O. Box 1163, Richmond, VA 23209; West Virginia residents may obtain a summary of the registration and financial documents from the West Virginia Secretary of State, State Capitol, Charleston, WV 25305; Maryland residents should contact the Office of the Secretary of State, State House, Annapolis, MD 21401. The official registration and financial information of the National Committee to Preserve Social Security and Medicare may be obtained from the Pennsylvania Department of State by calling toll-free, within Pennsylvania, 1-800-732-0999. Registration does not imply endorsement. Washington residents may obtain registration and financial information from the Secretary of State by calling toll-free, within Washington, 1-800-332-4483. FLORIDA RESIDENTS MAY OBTAIN A COPY OF THE OFFICIAL REGISTRATION AND FINANCIAL INFORMATION FROM THE DIVISION OF CONSUMER SERVICES BY CALLING TOLL-FREE, WITHIN THE STATE, 1-800-HELP-FLA. REGISTRATION WITH ANY OF THESE STATE GOVERNMENTAL AGENCIES DOES NOT IMPLY ENDORSEMENT, APPROVAL, OR RECOMMENDATION BY THE STATE.

M E M O R A N D U M

They are using scare tactics to try and silence you...

TO: National Committee Members
FROM: Max Richtman, Chief Lobbyist

I'm deeply concerned...

...the Entitlements Commission is using scare tactics to get their benefit-cutting message into news articles and television reports with alarming ease.

It's part of an all out media strategy to win public support for the deep cuts in Social Security and Medicare we believe they will soon recommend to Congress.

Let me give you an example of what I mean and why you should be as concerned as I am...

The *National Journal*, a respected publication that covers the activities of the federal government, recently published an article on the Commission that reported the following, and I quote:

> "The commission leaders warned that if action is not taken soon, every federal tax will have to double or every federal program and entitlement cut in half to balance total federal spending."

Like in many of the other news reports I've seen lately, the Commission is successfully getting its alarmist message out. It's scare tactics — plain and simple!

The fact is, if they can scare all the "baby boomers" and younger people with their message of doom, they think they can defeat us...

...and make no mistake about it, they do not intend to raise taxes. Their intention is to cut entitlements. The same *National Journal* article even went on to report, and I quote, "Commission members have made it clear they do not consider tax increases a viable option."

It all means one thing. They are coming after Social Security and Medicare.

And if we don't let the Commission know we're ready to fight for our benefits — ready to counter their scare tactics by speaking the truth — then they will defeat us.

And that's why I'm urging you to answer the National Committee's call to action right away and submit your personal testimony as soon as possible.

Again, don't let the Commission silence you!
Speak up! And speak up now!

PRINTED ON RECYCLED PAPER

PERSONAL RECEIPT

Follow these steps

1. Complete and sign the PERSONAL TESTIMONY REPORT and the Reply Memorandum form.
2. Fill in the date, your check number and the check amount;
3. Tear off this Personal Receipt for your records.

DATE ____

CHECK # ____

$ AMOUNT ____

National Committee to Preserve Social Security and Medicare

↑ Fold and tear on dotted line before mailing ↑

FORM T-1994

Personal Testimony Report

Submitted to: The President's Commission on Entitlements and Tax Reform

Docket Number: 123456780001942010000100000X

Submitted by: MRS SAMPLE A SAMPLE
ANYTOWN. STEXPANO

Instructions: Please give your opinions on the questions below and sign in the signature space. You may use the back of this form for additional comments that you want to have presented to the Commission.

For Statistical Purposes Only

Age:	☐ 55-60	☐ 60-65	☐ 65-70	☐ 70-75	☐ 75+
Marital Status:	☐ Single	☐ Married	☐ Divorced	☐ Widowed	
Home:	☐ Own	☐ Rent			

Questions

1. Would a proposed reduction in Social Security and Medicare benefits for middle-class seniors affect the security of your retirement?

   ☐ Yes ☐ No

2. Would a proposed tax increase on Social Security and a tax on the insurance value of Medicare benefits affect the security of your retirement?

   ☐ Yes ☐ No

3. Can you personally afford a cut in your Social Security cost-of-living adjustment?

   ☐ Yes ☐ No

4. Should Social Security be included in recommended cuts even though it pays for itself with a dedicated tax?

   ☐ Yes ☐ No

5. Should Social Security and Medicare continue to operate as insurance programs, paying benefits to all who have paid into the programs, or should the programs be "means tested" like welfare, paying benefits only to the poorest seniors?

   ☐ Insurance Program ☐ Welfare

Comments: Please use the back of this form to add any personal comments that you want the members of the Entitlements Commission to consider as they discuss proposals which affect your benefits.

I hereby certify that the personel testimony I have submitted is truthful and correct.

Sign Here ____________________
MRS. SAMPLE A SAMPLE

123456780001942010000100000X

PLEASE DO NOT WRITE IN THIS SPACE

Reply Memorandum

TO: Martha A McSteen, President
National Committee to Preserve
Social Security and Medicare
2000 K Street, N W , Dept 42010
P O Box 37075
Washington, D C 20013-7075

FROM. *(Please make any necessary corrections to your name and address below)*

MRS SAMPLE A SAMPLE
SAMPLE COMPANY
1234 ANY STREET
ANYTOWN. US 00000

Contributions or gifts to the National Committee are not tax-deductible

PRINTED ON RECYCLED PAPER

YES, Mrs. McSteen, I will back up your testimony to the Entitlements Commission with my own. We cannot allow a few politicians and special interests to push proposals through Congress which would weaken Social Security and Medicare.

Enclosed is my contribution to help my National Committee continue its intensive lobbying efforts to protect the benefits I'm entitled to and to fund this important special project:

( ) $10 ( ) $15 ( ) OTHER $______

Please make your check payable to: NCPSSM (or the National Committee to Preserve Social Security and Medicare) Return your Personal Testimony Report and contribution in the enclosed pre-addressed envelope

123456780001942010000100000X

Mr. RICHTMAN. Congressman, this mailing relates to the work of the Entitlements Commission, a bipartisan commission on entitlements and tax expenditures, which as far as we know has looked almost exclusively at entitlements and barely looked at the tax expenditure side of the equation.

What this mailing does is ask our members to send not preaddressed postcards, but actual comments, their own comments on the backs of the petitions that are included of how they view the Entitlements Commission and efforts to reduce Social Security and Medicare to reduce the deficit to balance the Federal budget.

We have 300,000 of those petitions now that have been received, and we are planning to deliver those in some form, I am not sure how yet, to the Entitlements Commission so the message gets through that our members do not feel that Social Security should be used again to balance the Federal budget.

As far as the independent agency, I couldn't agree with you more. We supported that and the Chairman's efforts and Chairman Moynihan's efforts to make Social Security an independent agency. It has been one of our top legislative priorities, and we were very pleased when the President signed that bill about 1 month ago. I think that goes a long way toward improving Social Security and making it less of a political football, but it doesn't solve all the problems with Social Security. If it did you wouldn't be having this hearing today. There are still problems of all kinds with Social Security.

Mr. BUNNING. I agree. That is why we are holding the hearing. But in your statement you said we better not overreact in looking into the future. Is that a factual statement?

Mr. RICHTMAN. What we are concerned about is, for example, the Social Security actuaries some few months ago reported that the trust fund instead of being solvent until the year 2036 was solvent until the year 2029. The way this was portrayed in the media and the way our members reacted to it was the Congress is going to read this as Social Security is about to go bankrupt; we better cut COLAs, we better reduce benefits or there won't be a Social Security program. To me that is what the overreaction is.

Mr. BUNNING. The proper reaction is in fact, that if we don't do something by around the year 2013, we will be actually living on the interest that is supposed to be accumulating into the trust funds, and that we will exhaust not only the interest, but the funds themselves, by the year 2029.

Mr. RICHTMAN. That is correct. I agree with you.

Mr. BUNNING. The fact of the matter is that the Entitlements Commission has not recommended any kind of severe cuts. I don't know of any kind of severe cuts or new taxes on Social Security or Medicare benefits that were recommended by the Entitlements Commission. Do you know of some?

Mr. RICHTMAN. All I know is the interim report of the Entitlements Commission focused almost exclusively, if not exclusively, on the entitlements part of their mission; they did not look at the tax expenditure side.

Mr. BUNNING. Did they recommend anything?

Mr. RICHTMAN. What they said was Social Security and Medicare are driving the Federal deficit, and we don't think that is right.

These programs are running at a surplus. How can a program that runs at a surplus cause the deficit?

Mr. BUNNING. Were they saying that after the year 2013 there may be a problem?

Mr. RICHTMAN. They are telling us what they think so far the problem is, and they have focused on entitlements. I don't know the last time Congress has looked at a Federal program that is solvent for 20 years and started to worry about it.

Mr. BUNNING. The biggest problem is that the law requires that it be solvent for 75 years. That is the law.

Mr. RICHTMAN. In my opinion, and speaking for the national committee, we are concerned about the overreaction to changes in the date at which the Social Security program runs out of money, from 2036 to 2029. That is the date when the balance gets to zero.

Mr. BUNNING. Are you telling this subcommittee today that you are recommending that we do absolutely nothing, that everything will be rosy down the road if we do nothing?

Mr. RICHTMAN. Absolutely not. I think our written testimony and our oral testimony point out that we do think some things need to be done. Our members are not that convinced that raising the retirement age is a good idea. We think there may be some merit to it and it is important to get that message out. Maybe it should be accelerated, not to the point some of these bills are discussing, but accelerated to some extent and maybe raised to age 68. That is something I think can be done in a positive way.

Mr. BUNNING. You don't agree, then, that this mailing that you have sent to your members would tend to frighten them, or would tend to overexaggerate the problems?

Mr. RICHTMAN. Congressman, we feel that the national committee exists so that senior citizens, particularly our members, 6.5 million members, have a way to focus their frustrations about the messages they are hearing in the media about what is happening to the Social Security and Medicare programs.

Mr. BUNNING. You know, we don't hear anything from your members until you send a mailing like this to them. In other words, until you stimulate some kind of response, we don't ever hear from your members.

Mr. RICHTMAN. Our members communicate in response to our mailings which we feel are a way that we can educate people about discussions that go on in Washington, about Social Security and about Medicare. If you would like to look at any of these 300,000 letters that our members have written, I would be happy to show them to you.

Mr. BUNNING. That would be fine, but your mailings always end up with a solicitation. If you have some other reason for writing other than information and solicitation, I would be interested in hearing it.

Mr. RICHTMAN. It is not accurate to say that all of our mailings solicit donations. Some do, some don't. I would be happy to send you samples of our——

Mr. BUNNING. I get every one.

Mr. RICHTMAN. Apparently you haven't seen the ones that don't ask for solicitations.

Mr. BUNNING. I haven't. There must be so darn few of them that I don't see them. Make sure that I get a copy of the ones that aren't solicitations.

Mr. RICHTMAN. I will be glad to send those to you. I am sure you have noticed that even in those that do ask for a solicitation, the president of the organization makes it clear that a donation is not required, it is in a note that is in every mailing that you don't have to send a donation but the cost of communicating by direct mail is very high and if members can contribute, they do. They don't very often. Sometimes they do.

Mr. BUNNING. Thank you, Mr. Chairman.

[The information was not received.]

Chairman JACOBS. Mr. Pickle.

Mr. PICKLE. I want to commend this panel, especially my friend Mr. Myers, the grand old man of Social Security. He and Mr. Ball and I appreciate your statements earlier that you would support either the Rostenkowski bill or my bill. That is playing it pretty safe I guess.

I noticed one thing that while you would take either one of the bills, that you did take objection to one of my recommendations, that is, which I would delay the COLA until June rather than the December date as it is currently projected. You object to that recommendation because it would be separated from the COLA for the supplemental medical insurance program.

My recommendation was to move to June. I was talking about Social Security, not the other programs, so I am not trying to say I am against the other. I was commenting only about Social Security. I have no objection to keeping them together if you think that is important, but instead of objecting to mine, let's move supplementary medical insurance over to the June dates, just move it. That is a broader approach that gets into another program, but that could accomplish the same thing, couldn't it, if that were brought about?

Mr. MYERS. Yes. I didn't mean to disagree with my great and good friend, Mr. Pickle, whom I admire so highly, but I just believed that from a practical matter, there should be complete coordination between when the increase in the part B premium occurs and when the COLA occurs.

Mr. PICKLE. We could keep them together if we could move SMI over to the Social Security change.

Mr. MYERS. Yes, that could be done.

Mr. PICKLE. You have made a great contribution to the Social Security program. You are a tough old analyzer that keeps us——

Chairman JACOBS. He is young.

Mr. PICKLE. That is why I am admiring him so much. I thank you personally because the contacts with you have been marvelous over the years. Thank you, sir.

Mr. MYERS. Thank you, Mr. Pickle.

Chairman JACOBS. The discussion between Mr. Bunning and Mr. Richtman reminds me of something I heard a few days ago. I have heard of all kinds of answering machines over the past 10 years but I heard one that beat them all. It said you have reached the Smith residence. If you are soliciting money, hang up now.

I would like to make one comment on the record because there has been a thread through these hearings about the problem about how you analyze the surplus in the Social Security accounts. It is erroneous logically in the extreme to count the Social Security surplus as a plus in the Federal fund's budget. It is precisely the reverse. Precisely the amount of the surplus is the amount that represents a factor in the deficit, in the national debt. The surplus itself, no less than a Japanese businessman or my wife's and my holding U.S. bonds, represents part of the national debt—not a national asset so far as the Federal fund's budget is concerned.

It has been the purpose of Mr. Bunning, Mr. Pickle, and other thoughtful Members of the Congress to somehow make that clear, and we have gone at it in a lot of ways. We have gone at it in terms of statutes requiring that the budget be reported more nearly accurately in these terms, and also we should hope that the Independent Social Security Agency might make all the clearer that trust means trust and a trust fund is money that is trusted.

And it is absolutely not true that the U.S. Government uses the surplus to buy anything. It borrows the surplus and has a legal, court-enforceable obligation to pay the loan back when due and to pay the interest on it. Only twice in the history of the United States has the trust fund literally or the funds literally been invaded, and that was kind of a mock invasion anyway. There were a couple of occasions in the 1980s when some game playing was being done about debt limits and so on. Even that money was paid back immediately by requirement of an amendment to a bill that became law at the interest rates prevailing at the time the fund had been so-called disinvested.

With that on the record, we thank the panel. We give our special congratulations and gratitude to Mr. Berkowitz. Not everyone can come in first—it was Mr. Entin who came in first and gets the Susan B. Anthony dollar as he came in at 3 minutes and 38 seconds—you need work, you came in at 4 minutes and 57 seconds but you are still the runner-up.

Thank you.

[Whereupon, at 3:25 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

AMERICAN ACADEMY *of* ACTUARIES

Dear: Members of the House Committee on Ways & Means Subcommittee on Social Security

RE: Analysis of Recent Proposals To Restore Social Security's Financial Soundness H.R. 4245, H.R. 4275, and Representative Penny's Proposal.

In April 1994, the Social Security Administration released the *1994 Annual Report of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (OASDI)[1], showing that the program is substantially out of long-range close actuarial balance. The long-range actuarial balance is the difference between the summarized income rate and the summarized cost rate over 75 years—a period long enough to discern the general pattern and ultimate level of future costs. The Trustees acknowledged the need to restore the overall program's long-range actuarial balance. The American Academy of Actuaries' Committee on Social Insurance (the Committee) shares the Trustees' concerns about the long-term deficit.

Since the release of the Trustees Report, three proposals to accomplish the goal of restoring long-range actuarial balance between income and outgo have received serious consideration in Congress: (1) H.R. 4245, introduced by Representative Rostenkowski (D, IL); (2) H.R. 4275, introduced by Representative Pickle (D, TX); and (3) a proposal by Representative Penny (D, MN) that has not yet been introduced in bill form. The Committee reviewed detailed estimates of the effects of these proposals on the income and outgo of the OASDI program prepared by the Social Security Administration's Office of the Actuary.

The Committee developed Table 1 to summarize the major impacts of these three proposals. Column 1 is the amount of change in the OASDI program's long-range actuarial balance, (expressed as a percentage of taxable payroll), estimated by the Social Security Administration's Office of the Actuary and based on the intermediate assumptions of the 1994 Trustees Report.[2]

Column 2 answers the question of whether the proposal succeeds in the goal of restoring "close" long-range actuarial balance, so that the OASDI program will be financially sound over the 75-year long-range period. A proposal that does not make appropriate changes in the income rate or the cost rate would fail this test, as would a proposal that makes changes that are badly timed.

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[1]This analysis is limited to the OASDI program. It does not examine the Medicare Part A Hospital Insurance (HI) program or the Medicare Part B Supplementary Medical Insurance (SMI) program.

[2]The estimated actuarial balance will vary with the assumptions used.

1100 Seventeenth Street NW Seventh Floor Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948

Columns 3 and 4 indicate the approximate percentage effect of (1) tax increases and (2) benefit cuts. In both cases, net figures are used; e.g., benefit increases are netted against benefit cuts.

Table 1
Bill Summary Table

	Column 1	Column 2	Column 3	Column 4
	OASDI		Percentage Effect of	
Proposal	Change in Long-Range Actuarial Balance[a]	"Close" Long-Range Actuarial Balance	Income (Tax) Increases	Cost (Benefit) Cuts
H.R. 4245	2.38%	Yes	69%	31%
H.R. 4275	2.12	Yes	9	91
Rep. Penny	1.60	No	--	100

[a] Financial effects are expressed as percentages of taxable payroll. The OASDI program's long-range deficit, under the intermediate assumptions of the 1994 Trustees Report, is 2.13% of taxable payroll. The tax rates that employees and employers are scheduled to pay under current law are:

OASDI	HI	Total
6.20%	1.45%	7.65%

Note: The Trustees of the OASDI program urged immediate action to restore financial soundness to the Disability Insurance program. The Hospital Insurance program (Medicare Part A) also faces significant deficits in both the short-term and the long-term that are not addressed by these proposals.

Tax increases may be partitioned into the following subcategories: (1) increases imposed on those people who would be taxpayers under present law; and (2) taxes imposed on new taxpayers. Also, the cost of benefit cuts may be partitioned into subcategories: (1) removal of certain beneficiaries from the benefit rolls (e.g., by raising the earliest retirement age above age 62); and (2) reductions in the benefits of people who remain eligible for some benefits. While available estimates do not permit subdividing changes into these categories, the following observations can be made:

1. Little additional tax revenue can be raised from new taxpayers, simply because virtually every worker is paying OASDI taxes already. The only significant non-covered group is employees of state and local governments. They are uncovered because the state or local government either did not opt into the OASDI program or does not already cover them with a government pension plan considered to be equivalent to the OASDI program. Such non-covered employees represent less than 3% of the U.S. work force. The proposals by Representatives Rostenkowski and Pickle would cover newly hired state and

local government employees.

2. None of the three proposals considered here derives significant savings from the complete elimination of benefits to any category of beneficiaries. Even raising the normal retirement age does not eliminate any beneficiaries, unless the early-retirement eligibility age is raised also. With most proposals to raise the normal retirement age, the vast bulk of the savings is attributable to smaller average benefits, rather than from people delaying the date on which they start receiving benefits. Workers who choose to retire at the same age as they had planned before the change merely get smaller benefits, because they have more months of "early retirement" and, therefore, larger early-retirement reductions. However, under the proposals to raise the retirement age, most workers would be able to obtain the same monthly benefit amount by retiring later. Representative Penny's proposal, however, is different, because it would ultimately raise the earliest age of eligibility from 62 to 67.

The Committee notes that the 1983 Amendments to the Social Security Act also eliminated the 75-year actuarial deficit, but it did so by creating surpluses early in the projection period followed by deficits late in the projection period. Thus, the ultimate tax rate was insufficient to finance the ultimate cost. This led to a situation where the long-range actuarial balance became more and more negative each year. The apparent intent of the Rostenkowski and Pickle bills is to set the ultimate tax rate high enough to finance the ultimate cost. This would prevent the kind of built-in deficit "creep" that was experienced after the 1983 Amendments to the Social Security Act.

Members of the Committee on Social Insurance would be happy to meet with you and your staff to discuss our analysis of the above proposals in more detail. The committee believes that the comprehensive action proposed by H.R. 4245 and H.R. 4275 that eliminates the long-range actuarial deficit is preferable to a piecemeal approach. A comprehensive approach that ensures stability in the program over the long-term will enhance public confidence in the system. Thank you for your attention.

Sincerely,

John Wilkin

John Wilkin
Chairman
Committee on Social Insurance

October 12, 1994

The following comments are submitted on behalf of the American Council of the Blind (ACB) for the hearing on the Social Security Long-Range Solvency Act of 1994 by the Honorable Andy Jacobs, JR., Chairman, Subcommittee on Social Security, Committee on Ways and Means, U. S. House of Representatives, September 27, 1994--H.R. 4245, H.R.4275 and other bills.

The American Council of the Blind (ACB) is a national membership organization established to promote the independence and well-being of individuals who are blind and visually impaired. By providing numerous programs and services, ACB enables blind and visually impaired people to live and work independently, contribute significantly to their communities, and advocate for themselves.

The ACB is concerned that current publicity about whether social security benefits will be available when "baby-boomers" reach retirement age does a disservice to the social security program that has served retirees, their families, survivors and those who are disabled for so many years. Unfortunately, so much negative publicity has created an atmosphere in which many future retirees feel that some immediate action must be taken now to ensure that funds will be "saved" for withdrawal at a later date. Those people who think that building up a huge trust fund made up of loan documents issued by the general treasury will ensure benefits without future cost forget that income or other taxes will have to be raised to pay off those loan documents.

It appears counter-productive to continue the current rate of FICA taxes, and to take other actions such as reducing benefits, raising the retirement age and taxing benefits to build up a loan pool for the general treasury. The social security trust fund should be on a pay-as-you-go basis.

Further, various proposals to raise the retirement age to keep people working longer and to keep from depleting the trust fund ignores the lack of employment opportunities in the United States now and the apparent trends for the future. With technological advancements in many industrial activities and the "downsizing" of many large companies as well as efforts to cut the civilian government and military forces, large numbers of people are losing jobs. It appears to be a trend in the downsizing to layoff and buyout the older work force and the middle management staffs, preventing many middle aged and older individuals from working into old age. For instance the Washington Post of September 27 said that--- " the American Management Association (AMA) survey found that 47 percent of its 7,000 member firms reduced their work forces in the past year, essentially unchanged from the two previous surveys. Unlike earlier downsizings, which were reponses to a slow economy or a drop in sales, the survey found current cutbacks were part of effort by companies to improve their competitive position. Increasingly, say management experts, downsizings are the result of new stategies to outsource non-essential work to other firms, adopt labor-saving new technology, and realize efficiencies from mergers or acquisitions of other firms. It is a mistake to see downsizing as one-time reaction recession, said Eric Rolfe Greenberg, the AMA's director of management studies. Instead, it has become a systematic, ongoing corporate activity."

Raising the retirement age will not necessarily keep the elderly working since they will be competing with younger people. With the growing numbers of immigrants in the United States and with the movement of production to less costly areas of the world, the elderly will have little opportunity of employment. Naturally, if people have nothing to live on, they will attempt to find work, but if it is not there, more and more will end up in poverty or deeper poverty and become members of the welfare community.

The recent report by the Census Bureau said that the number of Americans living in poverty increased to 39.3 million last year, an unusual development in an economy that has been growing since 1991. The Post of October 7 quoted Secretary Robert B. Reich as saying "We have the most unequal distribution of income of any industrial nation in the world," with the upper 5 percent of households increasing its share of all household income to 20 percent in 1993. "Unless we turn this situation around we're going to have a two-tiered society; we can't be a prosperous or stable society with a huge gap between the very rich and everyone else," he said. The Post also quoted Harold Watts, a professor of economics at Columbia University, "The low end is not enjoying the same kinds of increases as the high end and it's been happening for a number of years. The cause is the failure of wages to rise and the fact that lower-paid workers have less security"

Proposals to reduce benefits to spouses and disability beneficiaries, COLA elimination or reductions do not encourage younger people to believe in the fairness of the program or its long term viability since members of Congress and others seem to be attacking the program from all sides. If people are convinced that the program is used for purposes other than for which it was designed and to mask budget deficits for which the program benefit payments have no effect, it is hard to ask people to maintain faith in its future integrity.
If the program were converted to a pay-as-you-go basis, there would be no opportunity to use the trust funds for other purposes.

The ACB does not believe that reducing benefits for "higher earners" would be helpful. There are a number of problems with that means testing proposal. The fact that some people were high earners while paying into the trust fund does not mean that such people do not have need of the benefits at retirement. Many people earn high wages but have to use such income for large expenses for illness or other reasons---it does not mean that the higher earnings are carried into retirement. If such proposals were enacted, applications for benefits would emulate the Supplemental Security Income (SSI) Program with its verifications of income and resources to establish eligibility---another welfare program. If Congress wishes to change the OASDI program to use the taxes generated by it, why not change all of the federally subsidized retirement and disability programs? Raising retirement ages, reducing benefit levels for legislative and executive branch retirees, and their survivors, as proposed for the OASDI program would seem beneficial to both the general treasury and the budget.

As for taxing social security benefits related to proposals to raise the retirement age and keep elderly individuals in the labor market, again individuals who continue working past retirement age (65) are paying a heavy tax. If the individual makes any reasonable salary or profit from self-employment, between 65-70, he or she loses all benefits and continues to pay the FICA. Or, if earnings are small enough to receive some benefits the one dollar offset for every three dollars earned exacts a heavy tax, as well as the likely payment of income tax on benefits because of the 85% inclusion of benefits into adjusted gross income. The high triple taxation now does not encourage continued employment. Congress should consider again the relief from the high taxation if there is concern that the elderly, and the disabled, should be competing in the labor force.

The ACB does believe that people who are disabled and those who are aged should be given encouragement and assistance to enter and remain in the labor market. We do not believe that people should be coerced into the labor market or be forced into poverty because of modifications in the OASDI program. We believe the most effective way to help the program and encourage people to work, if they are able to find any kind of employment, is to remove the earnings limitations for people who are disabled and those who are of retirement age. Inasmuch as benefits (85%) are included as adjusted gross income for tax purposes at slightly above the median wages of full-time male workers, $30,407 in 1993 ("Isaac Shapiro of the Center on Budget and Policy Priorities-Washington Post of October 7, 1994), the government would have the benefit of additional FICA taxes and income taxes. The benefits would be of inestimable help to those who are disabled to maintain themselves and to assist them in paying the additional expenses required for work.

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STATEMENT BY
GERALD M. SHEA, DIRECTOR, EMPLOYEE BENEFITS DEPARTMENT,
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
TO THE SUBCOMMITTEE ON SOCIAL SECURITY,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ON H.R. 4245, THE SOCIAL SECURITY LONG-RANGE SOLVENCY ACT OF 1994,
H.R. 4275, THE SOCIAL SECURITY ENTITLEMENT REFORM AMENDMENTS OF 1994,
AND OTHER BILLS TO RESTORE THE LONG-TERM SOLVENCY OF SOCIAL SECURITY

October 11, 1994

Mr. Chairman and members of the subcommittee, on behalf of the AFL-CIO, I thank you for the opportunity to share our views on Social Security financing. The affiliate unions of the AFL-CIO represent 13.1 million working men and women and millions of retired union members, most of whom benefit from negotiated pension and health care plans. Social Security is a very important issue to working and retired Americans.

The AFL-CIO urges the Subcommittee to view the problems which are emerging in Social Security in the overall context of the increasingly troublesome problems in the broader field of retirement security. The private pension system is also under immense stress. Funding problems in Social Security, as in private pensions, reflect the lack of real wage growth for American workers and the increasing portion of overall compensation claimed by rising health care costs.

The AFL-CIO strongly believes that the Social Security system is, without question, worth keeping and fixing. The AFL-CIO stands ready to play its part and pay its share in a fair solution.

Fortunately, the Social Security system is able to anticipate funding shortfalls with very substantial lead time. This means that Social Security funding issues need never reach crisis proportion but can be dealt with in a deliberative, balanced way. The hearings that this Subcommittee holds in this Congress and, presumably, in the next Congress can do much to illuminate the problem and explore the possible solutions.

We do recognize that the Social Security deficit will come sooner than was predicted in 1983 when the National Commission on Social Security recommendations were adopted by the Congress. The AFL-CIO will participate in the process of examining the Social Security system in order to develop recommendations to assure the solvency of the trust funds.

Lane Kirkland, President of the AFL-CIO, was a member of the 1983 National Commission that made tough recommendations and provided the basis for the solvency of the Social Security trust funds into the 21st century. Presently, union representatives, including myself, are working as members of the Social Security Advisory Council to review both the structure of the Social Security system and its financial needs. This must be a very deliberative process which does not reach for quick fixes.

For almost sixty years, Social Security has adapted to dramatically changing job structures, marriage patterns, and life expectancies. The future cohort of baby boom retirees is another predictable shift the system can anticipate and manage. The key to Social Security's endurance is that benefits are both tied to workers' contributions and to families' insurance needs. We find that two proposals before this subcommittee to restore long-run funding balance -- means-testing and raising the retirement age -- are unsound in large part because they would break this critical linkage.

The Origins of the Recent Social Security Problem

There is a long-term problem instead of the balance provided for by legislation based on the 1983 National Commission on Social Security because earnings grew slower in the 1980s than the Commission had anticipated. There are several root causes for the pallid earnings growth: two decades of low-wage job creation, rising health care costs which absorbed more of total compensation dollars,

a depreciating minimum wage, and American capital flight not only hurt workers' standard of living but also Social Security.

We would like to point out that lower productivity is not the culprit causing lower real wages. Please examine Chart 1 to see plainly that while American worker productivity has grown considerably, workers were not paid for their productivity in the 1980s.

The two proposed solutions being explored at this hearing, means-testing and raising the retirement age, will be seen to be more treacherous in their impact when examined in the context of overall retirement security. The supplementary tier of retirement income security -- employer-based pensions and retiree health benefits -- is not robust.

Despite the gains to pension funds from the 1980s go-go stock market, pension income and coverage did not expand. The employer-based pension share has remained at about 18% of all income to the elderly. Employer-provided pension participation also has stagnated in the last 15 years. Less than 50% of the work force is participating in employment-based pensions.

In addition, health care costs are eating up gains in pensions. Chamber of Commerce data shows that the percentage of pay going to health care costs have overwhelmed pension contributions while total expenditures on fringe benefits have remained about the same. When health care costs increase, employers do not raise total compensation. They take the increased health care costs out of wages and pensions. Please see Chart 2.

There are better ways to approach Social Security solvency issues than those proposed by the four bills under consideration.

Solutions That Could Work

Two solutions consistent with the system's function are expanding the tax base and increasing the tax rate across the board. Protecting benefits for all beneficiaries preserves the system for the poorest among us.

Possible solutions to help Social Security become solvent in the medium and long term include increasing the payroll tax by as much as 2% -- less if the anemic trend in earnings abates -- that will help correct the long-term Social Security fund balance. Expanding the amount of income taxed by raising the contribution ceiling also increases revenue. Restoring earnings to match productivity increases is a more enduring solution.

Raising the Retirement Age: A Too-Blunt Instrument

The life expectancy for some groups, especially white males, is increasing considerably. A September 12, 1994, Business Week cover story argues that jobs are getting better and people are less debilitated so people may work longer. Healthy and higher income individuals are the most likely to work after age 65.

On the other hand, people who retire are usually forced to because of health and unavailability of work. Cutting this group's benefits by raising the retirement age provides no structural solution to low earnings growth, high unemployment of older workers, or galloping health care costs. The only change raising the retirement age induces is a lower living standard for those elderly who cannot work. We strongly oppose raising the retirement age.

Some people seem to feel that individuals should work longer since people are living longer. But, cutting benefits will not induce someone to work who cannot. More elderly might choose to work if bad jobs were improved and job opportunities were widened.

Proposals to cut benefits by raising the retirement age will persist because, on paper, the savings are huge. Projections cite that half of the Social Security projected long-term deficit could be eliminated by raising the normal retirement age to 70 by year 2029. However, it is a false savings paid for by more poverty and inequality.

Raising the retirement age to cut costs ignores the increased business costs due to a diminished Social Security system. Our nation's retirement income security system is a public/private mix. Firms that need or want to reorganize by "downsizing" need voluntary attrition. Lowering Social Security will raise the costs of firms wanting to humanly restructure by forcing them to sweeten the retirement package.

Means-testing would Destroy the Social Insurance System

If anyone wishes to argue the merits of dismantling the Social Security system as a universal program of social insurance, it should be done so straightforwardly. The nation will be better served by an outright discussion of whether the benefits of diminishing Social Security are worth the cost of increased poverty and social rift, rather than, in an indirect way, ruining the system's structure by taking benefits away.

A recent, September 1994 CBO report on means-testing entitlements concludes that distributing Social Security and Medicare based on income -- similar to these suggested by the four bills before us -- would mean that half of the savings, $190 billion in five years, would come from eliminating or cutting benefits to families with incomes above $30,000 per year. The elderly and families with children would bear almost all of the cuts.

The CBO report echoes the same concerns of international studies -- the International Labour Organization and Old-Age Security in Comparative Perspective by J. Williamson and F. Pampel -- that also examine means-testing. They find that the larger the group whose benefits are cut the larger the savings. However, taking away the benefits of a large group of people because they saved or work too much will increase the disincentives to work and save. Ironically, attempting to increase national savings by reducing the federal deficit in this way could discourage families from saving and keep national savings rates unchanged or worsened.

Means-testing also means someone would have to assess what incomes and wealth to count against benefits. Do unrealized gains count, for instance, the appreciation of one's house? If people save in fear of nursing home expenses, will the savings have to spent down before Social Security benefits are paid? If the value of Medicare insurance is taxed, will sick people getting expensive treatments pay more tax? Separating the "deserving" from the "non-deserving" costs more to administer than just distributing benefits.

Conclusion

Means-testing Social Security benefits would destroy the system's contributory character. It would tie eventual benefits to income and assets at retirement despite what the person contributed while working.

Raising the age at which families can collect full benefits beyond the 1983 National Commission's increases will diminish the system's insurance aspect. Getting people to work longer appears to be an easy solution to the long term solvency problem. But raising the retirement age will have dubious effects on the elderly's ability and desire to work while unambiguously cutting benefits to those families needing retirement income security the most.

Mortality, jobs, income growth are changing but Social Security has survived more drastic changes -- for instance, run-away inflation and high unemployment in the 1970s. The root causes of the Social Security's long-term solvency problems also imperil other facets of the federal budget.

The lack of health care cost containment and non-universal coverage threatens the solvency of the Medicare system that puts pressure on Social Security financing when there is inter-fund borrowing. Runaway health care costs also jeopardize the employer-based tier of retirement income security by squeezing pension contributions to pay for health care premiums.

Declining workers' standard of living due to low-quality job growth feeds back on the Social Security System. Diminishing the Social Security system solves none of these problems. On the other hand, eroding Social Security could have wide-ranging consequences and be very expensive.

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U.S. Department of Labor, Employment and Earnings various years.

U.S. Department of Commerce Statistical Abstract of the U.S.
1993, Table 667.

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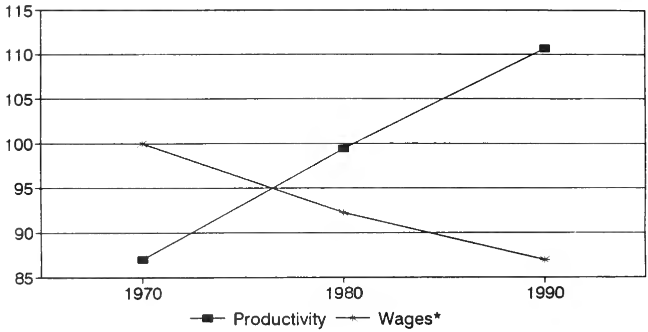
CHART 1

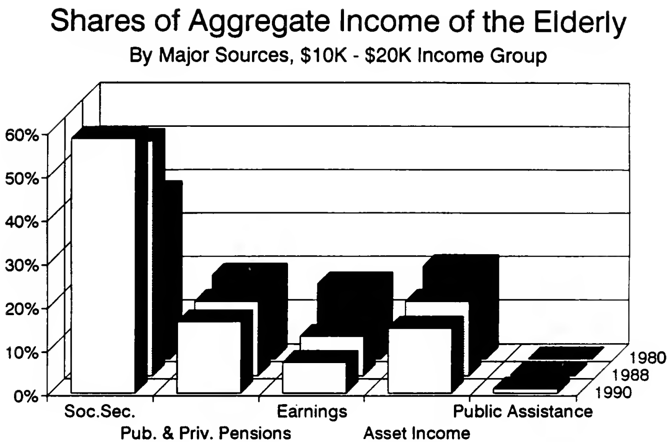
Productivity and Real Worker Wages



Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings; Statistical Abstract of the U.S.: U.S. Department of Commerce, Bureau of the Census, Table 667; Auerbach and Kotlikoff, Macroeconomics, back cover, Cincinatti, South - Western Publishing, 1994.

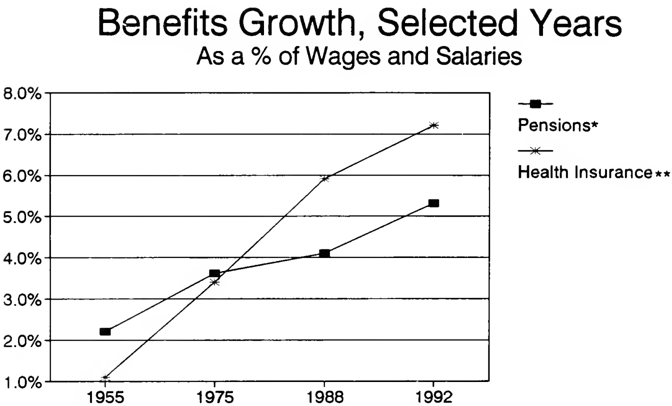
* 1970 wages set to 100 = $298.

CHART 2



Source: U.S. Department of Labor, Pension and Welfare Benefits Administration, "Trends In Pensions," 1992; Reno, Virginia P., "The Role of Pensions in Retirement Income," "Pensions in a Changing Economy," EBRI, Washington, D.C., 1993.

CHART 3



Source: U.S. Chamber of Commerce, Survey of Employee Benefits: 1983, 1989, 1993, Table 6.

*Total contributions to plans. No insurance annuity premiums.
**Total premiums for all insurance, mostly health care.

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AFL-CIO

October 7, 1994

Janice Mays
Chief Counsel, Staff Director
Committee on Ways and Means
The United States House of Representatives
The Longworth Building, Room 1102
Washington D.C. 20515

Dear Director Mays:

I am writing to express my opposition to HB-4245 currently under consideration by the Ways and Means Committee. I object to any proposals which would mandate the placement of Ohio's public school teachers in the Social Security System.

I wish to point out the following:

1. As a union negotiator for the past eleven years, I have had to bargain to maintain medical benefits by negotiating lower raises in salaries. This bill, if passed, would effectively cause a 1.45% salary reduction for my members who were hired prior to 1986. This is unfair and unacceptable. In addition, our employer would be saddled with the added expense of medicare contributions for this same group of employees. This is especially problematic in Ohio where school districts suffer from an antiquated system of school funding based primarily on the property tax which does not allow for inflationary growth of revenues.

2. The State Teachers Retirement System of Ohio is a sound and stable fund. As I understand it, should HB-4245 be enacted, there would be no additional future contributors to the S.T.R.S. Ultimately, this could threaten the solvency of the system.

3. Many public school teachers in Ohio have accumulated Social Security credit via second jobs or summer employment. They are contributors to the system yet the offset provisions deny them full Social Security benefits. If HB-4245 becomes law, then these offset provisions should no longer apply to those who opt for Social Security, if anyone would.

4. Generally, teachers are low-paid public employees. One of the tradeoffs for pursuing a teaching career has always been our fine retirement system. In Ohio, teachers can retire after thirty years of service with a pension equivalent to 63% of their final average salary. Many retire in their early-to-mid fifties. This allows school districts to hire less experienced and less expensive newer teachers which is financially advantageous. Mandating Social Security would destroy this dynamic. Further, if employers had to contribute only to Social Security, as opposed to the 14% of salary that is contributed to STRS, the disposition of the remaining funds would cause constant battles between teacher unions and boards of education.

In closing, I wish to emphasize that placing Ohio's public school teachers into Social Security will not contribute to the system's solvency. Passage of HB-4245 will, instead, create chaos for all those affected which, I understand will not include federal employees who will be exempt from the mandates contained in this legislation.

Yours truly,

Tom Schmida, President

Linda S. Cooper
103 Norfolk Ave.
Lexington, Ohio 44904

Oct. 4, 1994

Janice Mays, Chief Council & Staff Director
Committee on Ways
U. S. House of Representatives
1102 Longworth Office Building
Washington, D.C. 20515

Dear Ms. Mays:

I have been recently informed about House Bill No. 4245, and I adamantly oppose the passage of this bill. Our teacher retirement fund belongs to teachers who have paid into the fund. It should not be shared by people who have not paid into it.

I do not wish to join with Social Security now or ever.

Please vote against House Bill No. 4245!

Sincerely,
Linda Cooper

Statement By Michael S. March, Ph. D. To
The Subcommittee on Social Security

PRESERVE SOCIAL SECURITY TO MAINTAIN A STRONG ECONOMY
AND A JUST SOCIETY

To procure a reluctant vote or two for his budget plan in 1993 President Clinton agreed to appoint a Commission on Entitlements, which is now under way. The President's proposed 1994 cuts in existing Medicare and other Federal health programs plus the possible retrenchment recommendations by the stacked Commission could severely endanger vital Federal economic security programs for unemployed, disabled, survivor, needy, sick, and elderly people. For a number of cogent reasons such impending cutbacks in entitlements in the guise of "deficit reduction" would be unfair and unsound national policy:

First, the entitlement programs are not the cause of existing Federal budget deficits -- which are now declining. Major programs such as Social Security, Medicare, and Federal pensions are paid from trust funds which are financed largely by payroll taxes or employee contributions. Families depend heavily on these contributory programs which preponderantly go to the lower income people. Social Security is the foundation of our income security system whose benefits families augment from savings and private pensions, etc. The Government has a solemn obligation to pay these contributory, earned statutory benefits in full. Unfortunately, Reagan, Bush, and Clinton have abrogated many tens of billions in such benefits or taken them away in new taxes. Pensioners who were surviving on a fraction of their earlier incomes had their COLAs cut back, the better to starve them. Ironically, from 1980 to 1992 the Social Security and Medicare trust funds loaned more than $400 billion, raised from wage taxes, to cover general Federal budget deficits.

Second, during those 12 years the number of poor rose by 7.6 million to 36.9 million people despite the existing social programs. The people clearly need adequate Federal income security safety net programs because poverty is the basic cause of many of our very serious socioeconomic problems. Moreover, 1991 Bureau of Census data show that despite previously available programs the overall income shares since 1980 have diminished for each of the 4 bottom quintiles -- but the income share for the wealthy top fifth has increased substantially. Economists have recently concluded that extensive income inequality is deleterious to the economy. The U.S. needs enlarged income equalization programs, not their dismemberment.

Third, my analysis of U.S. budgetary data shows that the increase of the Federal deficit from $74 billion in 1980 to $290 billion in 1992 was due to 3 main policy actions by Presidents Reagan and Bush: (1) The defense spending rate was more than doubled from $134 billion in 1980 to $293 in 1992 -- for a cumulative budget addon of $1.4 trillion -- but no defense tax increase was levied. (2) During those years net tax reductions from 1980 rates, enacted largely in 1981 and 1986, cost the Treasury $1.1 trillion. (3) As a result of actions 1 and 2 interest on the gross public debt also burgeoned during those 12 years and cost another $1.5 trillion -- mostly to benefit the wealthy. Why should the ordinary people of America now suffer curtailment of their vital social insurance and welfare benefits because of fiscally reckless Reagan/Bush budget policies? Are Social Security beneficiaries who planned the rest of their lives on receiving those benefits going to lose them now because the Concord Coalition's "means test" is clamped on them? Is the Clinton administration with its cohort of cabinet millionaires and Wall Street advisers undertaking a raid on the earned social insurance and pension rights of middle class working Americans to make them pay for Reagan's defense spending increases and tax cuts for the very rich and the corporations?

Fourth, it would damage millions of ordinary American families and impair the overall economy if the Clinton administration and the Congress should significantly cut the existing Federal health and income security programs. There is no valid reason for such cuts -- and much justification for taxing the beneficiaries of Reaganomics to support social programs. In the dozen Reagan/Bush years income and wealth flowed into the hands of the very rich in unprecedented volumes. During the Reagan years 70% of the increased income in the country went to the top 1% of taxpayers. Congressional reports show that just from 1983 to 1989 the net wealth of the top 10% increased by \$3.6 trillion -- and the top 1% got \$2.4 trillion of that sum. President Clinton's 1993 tax increase for the top 1% was only \$25 billion a year -- a mere 1% of their enrichment under Reagan. Their proper tax increase now ought to be what is necessary to cover, say, half the existing Clinton budget deficit. They can afford it with much less pain than the mass of elderly and other pensioners and the single teenage mothers whose welfare benefits are being targeted for severe retrenchment by Clinton.

Fifth, the contributory Social Security system is the foundation of the economic security system for working families in their old age, disability, or death of the breadwinner. It is the most successful antipoverty program the U. S. has. Since its enactment in 1935 Americans have increasingly relied on Social Security to provide their earned basic benefits. Private pensions, where they exist, have largely been structured to augment these basic benefits. The Social Security benefit formula is structured to yield a higher ratio of benefits in relation to wages for low income people--and to provide a significantly lesser ratio to high wage people.

Unfortunately, the Social Security program is being undercut. In the last two decades increasing curtailments of benefits have been proposed and even enacted--as is evident from the bills pending before your Subcommittee. The elderly no longer can rely on the Social Security benefits on which they had counted for their old age. Even after they are awarded benefits income taxes are suddenly imposed on their benefits if they are in a middle income category. The millionaires from Wall Street want to means test all Federal entitlements including civil and military pensions--while the Federal Pension Guaranty fund is guaranteeing private pensions. The means testing of Social Security is incongruous because 90 % of Social Security payments go to recipients with total incomes under \$60,000, according to the 1993 "Green Book." It is striking that corporate executives, according to Business Week, April 25, 1944, in many cases receive compensation of \$10 million or more and, of course, still enjoy a capital gains tax rate of only 28 %. There is an incredible fairness gap in the way public programs and so-called private income are proposed for treatment by the "New Democrats" led by President Clinton.

Sixth, as a former Federal policy analyst in the pension and social welfare program area and a professor who taught public finance, I suggest that your Subcommittee bear in mind two major facts: (a) That for some 59 years American people in the working ranks have increasingly relied on their earned rights in Social Security and that such rights should not be abrogated without real reason; and (b) the budget deficit which remains in 1994 is solely the result of the Reagan/Bush fiscal irresponsibilities which handed off trillions to the very rich, as I describe above. The entitlement programs are desperately needed and they should not be sacrificed to make the very rich even richer. The bills pending before your Subcommittee would cripple Social Security in some serious ways:

(1) Some increases in retirement age to take account of lengthening life span are appropriate--but such action should be imposed only for many years ahead, so people can plan their careers.

(2) Curtailment of COLAs would be damaging and unfair, because it is well known that "inflation is the cruelest tax of all."

(3) Families run into numerous, serious risks in our unstable, rapidly changing economy, so they need adequate "income safety nets." Only the Federal government has the capacity to do this.

(4) The financing of Social Security by means of wage taxes is actually regressive, because flat rates are levied on poor workers and rich workers--and the rich have a large part of their income escape from the flat tax because they benefit from a ceiling on taxable wages.

Seventh, actuarial studies indicate that by the year 2013 Social Security outlays will start to exceed income flowing into the Trust Funds. This indicates that some action will have to be taken to make sure that the Social Security system will be financially solvent in the decades of the 21st century. Inasmuch as private pensions in the U. S. are wholly inadequate in coverage and in many instances poorly financed where they supposedly provide protection, it is very important to finance Social Security adequately and to extend it to cover 100 % of the working population. There are various considerations which should be analyzed in coordinating Social Security provisions with those of other Federal programs such as Medicare, Federal civil service and military service retirement payments, unemployement compensation,and Federal workmens' disability and death compensation or veterans' compensation payments.

(1) The tax treatment of Federal benefits should be fair and consistent across the board. The Concord Coalition in its report "The Zero Deficit Plan" undertakes to balance the budget by cutting Federal entitlement payments by $118 billion a year, thus "saving" 47 % of the Coalition's projected budget deficit by deep cuts in entitlement payments by means of a Draconian "means test" levied solely on such Federal payments. A family with a total income of slightly over $60,000 a year would lose 30 % of its Social Security payments;one with total income of $100,000 would be taxed 70 % of any Social Security payments;and a family with $120,000 would lose 85 % of its Federal entitlements. These rates of reduction in such benefits would be more appropriate for tax rates on pensions of corporate executives who receive millions of dollars a year. Clearly, such expropriation rates on Federal benefits are inappropriate. Workers would not want to be covered by Social Security, etc., or to work for the Federal Government if their retirement, disability, and survivorship payments were to be expropriated on such a scale.

(2) Much can be said, however, for recognizing that redirection through taxes of very high incomes measured in the millions and tens of millions a year to social purposes would benefit low income families at relatively small sacrifice by the very rich earners. Thus instead of boosting the rate of Social Security or Medicare taxes in future years to cover projected Trust Fund shortfalls a general income tax might be levied at modest rates on very high incomes to subsidize these two social programs. If the Concord Coalition deems marginal rates of 85 % appropriate at total income of $120,000 then levies of 1 % or 2 % on the incomes of millionaires and billionaires would seem feasible for social purposes to spare low income earners from further social insurance tax increases.

(3) The excuse that some adduce for cutting entitlements is that the budget deficit is around $200 billion a year. However, there is another set of figures which suggests that a big bite in the Federal deficit could be taken by reviewing fully and eliminating or cutting major tax loopholes for individuals and corporations. Many of these so-called Tax Expenditures benefit high income recipients either directly or through corporations which profit from these loopholes. (See "Analytical Perspectives" volume of 1995 budget,p. 53 ff.) The Congress should work with the Presidency in a searching review of these tax loopholes so Federal resources can be redirected to socially beneficial purposes. These loopholes probably now total around $400 billion.

Respectfully,
Michael S. March
Michael S. March, Ph. D.
2695 Stanford Ave.
Boulder, CO 80303

Note: March served as an analyst on pension and social programs in the U. S. Bureau of the Budget/OMB from 1944 to 1973 and is also Emeritus Professor of Public Affairs at the University of Colorado. The above statement reflects his professional views based on many years of analyzing and studying Federal social programs. Telephone: 303-494-4871.

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October 6, 1994

Janice Mays, Chief Council and Staff Director
Committee on Ways
U.S. House of Representatives
1102 Longworth Office Building
Washington, DC 20515

Ms. Mays:

RE: HB 4245

I write in behalf of the entire membership of the Ontario Federation of Teachers, urging you to do all you can toward the defeat of HB 4245. I enclose what I hope to be enough copies of this letter for all committee members. If more should be needed, please provide them in my behalf.

We are not looking for a government hand-out. We do **not want to be part of any entitlement program** - Social Security inparticular. We have invested our retirement funds in Ohio's STRS and seek only for government to keep their hands off. That is for current members as well as future colleagues.

Face it, the reason for the provisions of this bill are to prop up a failing program that in time will fail anyway. You and our representatives know this better than I. That is one of the reasons you have exempted yourselves from its coverage.

The founding fathers of this country knew it was not government's purpose to redistribute wealth, but that is all our current government can seem to do.

Get your hands off my retirement money and out of my pocket. Let's get out of the entitlement mentality and back to local control.

We are watching the voting records. We will be informed of you actions.

Expectantly,

Herschel A. Grim, President

NCSSSA — *National Conference of State Social Security Administrators*

HEARING - SEPTEMBER 27, 1994
RESTORING LONG-TERM SOLVENCY OF SOCIAL SECURITY

Statement submitted by Steve Lortz, President
On behalf of the National Conference of State Social Security Administrators

The National Conference of State Social Security Administrators represents more than 70,000 state and local government employers nationwide. Recent legislative proposals HR4245 and HR4275 contain sections mandating social security coverage for all state and local government employees hired after certain dates as specified in the legislation.

The exception from social security coverage for state and local government employees was included in the original version of the Social Security Act (HR7260), passed in 1935. The committee reports on the act contain no discussion of the exception provision. In the January 22, 1935 hearings of the Committee of Ways and Means, however, Dr. E. E. Witte, Executive Director of the Committee on Economic Security, was quoted as saying:

> "Government employees are excluded from the tax for obvious reasons. The federal government cannot impose a tax on the states or the political subdivisions of the states. This is a tax measure..."

This original exception is the federal government's recognition of its constitutional limitation to mandate a social security employer tax on the states and their political subdivisions. According to the House Ways and Means Committee Print 97-34:

> " the Social Security Act of 1935 excluded from coverage all employment for states and localities, primarily because of the question of the constitutionality of any general levy of the employer tax on states and localities."

The 1950 amendments to the act, effective January 1, 1951, allowed a state to enter into a voluntary agreement with the federal government permitting the state and its political subdivisions to provide social security coverage for their employees. This voluntary coverage concept was included in Section 218 of the Social Security Act. Social security contributions, in lieu of taxes, are made by both the governmental employer and employee once voluntary coverage is enacted.

The Omnibus Budget Reconciliation Act of 1990 (OBRA 90) requires social security coverage for every state and local government employee who does not belong to a qualified, public retirement system or who is not covered by social security under a Section 218 agreement. OBRA 90 avoided the constitutionality question by retaining the states' and their political subdivisions' right to determine if employees will be covered under social security or a public retirement plan which provides comparable benefits. Public employees have managed to comply with the coverage requirements of OBRA 90, but only at significant expense and with great administrative effort, and now every governmental employee has some form of retirement protection.

Based on the facts presented above, universal social security coverage cannot be justified on the premise of being a benefit to state and local government employees. Universal social security coverage is simply a revenue generating measure.

The cost to state and local government employers on a short term basis would be serious, but the long term outlay would be devastating. States in which there is limited social security coverage, such as California, Colorado, Illinois, Louisiana, Ohio and Texas, would face overwhelming burdens on already strained budgets. Even states that already have general social security coverage for state and local employees (Florida, New York and Virginia) would have thousands of employees impacted and millions of dollars in costs as universal coverage is phased in.

Imposition of universal coverage would impair, and in some cases destroy, retirement security for millions of state and local government employees. Government retirement plans work well for employees because of their returns on investments. Public pension funds are invested directly in the economy, thereby creating jobs and earning dividends which help fund future retirement benefits.

The NCSSSA asks that you give serious thought to the ramifications of universal social security before voting on its future. We believe that you will come to the same conclusion as we have - the human and monetary costs of universal social security to state and local governments and their employees at this time far outweigh any revenue advantages gained by the federal government.

STATEMENT OF THE NATIONAL EDUCATION ASSOCIATION

Mr. Chairman and Members of the Committee:

The National Education Association represents 2.2 million education employees in the nation's public elementary, secondary, vocational, and postsecondary schools. We appreciate this opportunity to share our views on proposals to mandate participation of all state and local public employees in the Social Security program.

NEA has long supported efforts to assure the long-term solvency of the Social Security system and opposed efforts to reduce benefits to recipients. Moreover, we support responsible efforts to reduce the federal budget deficit, including efforts to restrain the growth of entitlement spending -- so long as they do not place an onerous burden on Americans who rely on these vital income security and health care programs.

NEA strongly opposes the imposition of Social Security coverage on those public employee groups that have declined coverage in the past and who currently participate in another public retirement system. Further, we believe that measures such as the Government Pension Offset place a disproportionate burden on public employees and are therefore a disincentive to public service occupations.

When the Social Security system was established in 1935, public employees -- including public school employees -- were excluded from participation. Of necessity, state and local governments established retirement systems that would provide income security at least comparable to the Social Security system combined with private pension systems. In the 1960s, when states were provided the option to participate in the Social Security system, employees in 14 states elected to remain outside the system and concentrate pension resources on state-based systems in the absence of Social Security coverage.

Over the past half century, these 14 states[1] have maintained and improved these retirement systems, and public employees, including NEA members, have foregone salary increases or other benefits to assure these retirement systems are adequate funded and secure far into the future. At present some 600,000 NEA members work in jobs not covered by Social Security.

The April 1994 report of the Social Security Trustees found that the Social Security Trust would be depleted by the year 2029, some 31 years earlier than previously estimated In response to this report, two measures were introduced in the 103rd Congress to address the problem. NEA is principally concerned with provisions in these two bills that address the issue of mandatory participation in Social Security.

H.R. 4245, offered by Rep. Dan Rostenkowski, would require all newly hired state and local government employees and their employers to pay the Social Security payroll tax beginning January 1, 1995. H.R. 4275, offered by Rep. J.J. Pickle, would require all newly hired state and local government employees and their employers to pay the Social Security tax beginning January 1, 2000.

Imposition of these taxes would significantly reduce the take-home pay of education employees and other public workers -- without a corresponding improvement in their retirement benefits. Further, it would create a severe financial burden on state and local governments at a time when they are struggling in the face of static revenues, sharp increases in costs for health and public safety, and increasing demands on our public school system.

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1 The 14 states in which many state and local public employees are not covered by Social Security are Alaska, California, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Maine Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas. NEA's combined membership in these 14 states is approximately 850,000.

Mandatory Social Security coverage for public employees would directly impede efforts to meet the National Education Goals in a number of ways.

- **Imposition of the Social Security tax on newly hired employees would provide a serious disincentive to enter the teaching profession and related education careers.** The take-home pay for newly hired public employees would be at least 6.2 percent, the amount of the Social Security payroll tax, below the pay for veteran employees -- without a comparable improvement in their total compensation package. And the ability of all state and local employers to provide increases for new and veteran education employees would be constrained by the demand to pay the additional 6.2 percent of the payroll for new hires.

- **State and local governments would have new costs for the employer share of Social Security -- as well as having to maintain support for existing retirement systems.** This would exacerbate budgetary pressures and make it more difficult to find resources for class size reduction, educational technology, professional development, and other school improvement efforts.

Veteran teachers are rightly concerned that mandatory coverage under the Social Security system may have an adverse effect on their own retirement system. Where public employers have a two-tiered retirement system, in which some employees participate in Social Security and the state or local retirement system, and some participate in the state or local retirement system alone, the employees' bargaining agent must ultimately choose where to devote resources. Diverting resources to the state or local-based retirement system benefits experienced education employees and retirees. Diverting those resources to salaries dilutes the overall benefit to all employees.

As of 1990, state and local employees who are not covered by another retirement system have been covered under Social Security, so the present effort to mandate participation in Social Security is motivated more by a desire to generate revenue than to improve the retirement security of public employees. Moreover, public employees already suffer from disparate treatment under the "Windfall Benefits" provisions and Government Pension Offset.

The windfall provisions reduce or eliminate Social Security benefits available to a public employee who qualifies for Social Security from other employment in either the private or public sector. The Government Pension Offset reduces or eliminates the Social Security benefit for the surviving spouse of a retiree from a federal, state, or local employer that does not participate in Social Security. Nationwide, at least 150,000 individuals each lose $2,700 -- a total of more than $400 million -- each year because of the offset provisions. The law does not reduce or eliminate the Social Security benefit for persons receiving a private pension.

NEA has long supported efforts to repeal or limit the impact of the windfall provisions and Government Pension Offset as a matter of simple fairness to low- and middle-income families. Without changes in these areas, the proposed changes mandating participation in Social Security would only worsen the inequities between public and private employees and place a disproportionate tax burden on low- and middle-income families.

Proposals to mandate Social Security coverage for public employees in states with alternative retirement systems has long been opposed by officials in both major political parties.

In a 1981 letter to former Senator Paul Laxalt, then-President Ronald Reagan wrote, "I share your concern that Congressional legislation to mandatorily enroll these (state, county, and municipal) employees (into Social Security) would create a substantial

financial hardship to state and local governments. More important, a merger may jeopardize the hard-earned benefits of dedicated career public employees."

Similarly in 1986, then-Senator Lloyd Bentsen wrote to the President of the Texas State Teachers Association, "I have worked closely with state teachers' associations in opposition to (extension of Social Security and disability coverage to public employees). People be assured that you may again count on my support."

NEA believes the federal tax system must be progressive, equitable, and adequate to address national needs. While this proposal may enhance the adequacy of federal revenues, it is neither progressive nor equitable. The imposition of a 6.2 percent payroll tax on newly hired state and local government employees represents a loss to middle-class families of almost $900 million in the first year alone -- an average of $1,800 per employee. At the same time, public employers would have to come up with an additional $900 million in the first year -- and much larger amounts in subsequent years -- as more new employees are hired.

Nine hundred million dollars is 8.2 percent of the total increase nationwide for elementary and secondary education last year. It is one-fourth (26 percent) of the total increase for public K-12 education in the 14 states that would principally be affected. Moreover, the amount required to pay for this new mandate on public employers in 14 states would more than offset the total increase provided for all programs administered by the U.S. Department of Education in FY95.

The impact on states and localities would be real and immediate. For example, in the state of Nevada, there were 1,565 new hires in the public schools statewide. The cost to school districts to pay the payroll tax would be some $2.6 million in the first year. The cost of the tax to each individual -- based on the statewide average teacher salary -- would be $1,662. In short, Nevada's newly hired teachers would take a 6.2 percent pay cut below their colleagues hired the previous year, and the "windfall" provisions and Government Pension Offset would assure they would never benefit from the Social Security system to the same degree as any other newly hired private sector employee in the state.

We recognize the 104th Congress must face difficult choices in regard to the Social Security system, including the need to respond to pressure to contain entitlement spending and the need to assure the long-term stability and adequacy of the Social Security system. And yet, we believe it is wholly inappropriate to trade off another important set of goals -- the National Education Goals -- and the needs of education and other public employees. We strongly urge you to reject any proposal to mandate participation in the Social Security system for public employees covered by retirement systems that were established with the understanding that Social Security benefits were not a part of an employee's retirement plan.

	Public K-12 Teachers 1993	Average Salary K-12 Teachers	Estimated Tax per individual	Estimated Additional Cost to School Districts for New Hires
Alaska	7,191	$45,728	$2,835	$1.8 million
California	215,739	$40,221	$2,494	$48.4 million
Colorado	33,419	$33,541	$2,080	$6.3 million
Connecticut	34,438	$48,343	$2,997	$9.3 million
Illinois	111,134	$38,632	$2,395	$24.0 million
Kentucky	37,872	$31,115	$1,929	$6.6 million
Louisiana	45,559	$26,074	$1,617	$6.6 million
Maine	24,382	$30,250	$1,876	$4.1 million
Massachusetts	57,225	$38,223	$2,370	$12.2 million
Missouri	52,985	$29,382	$1,822	$8.7 million
Nevada	11,969	$34,119	$2,115	$2.3 million
Ohio	104,509	$34,100	$2,114	$19.9 million
Rhode Island	9,680	$37,510	$2,326	$2.0 million
Texas	219,338	$29,935	$1,856	$36.6 million

Position Statement
Opposing Participation in Social Security by Public Employees

The Ohio Association of Elementary School Administrators represents over 2100 of Ohio's elementary and middle school principals. It has been the Association's long standing position to oppose proposals that would mandate participation by Ohio's public school employees in the Social Security System.

A financially secure retirement awaits Ohio's elementary and middle school administrators through their participation in one of Ohio's fiscally sound public employee retirement systems, the State Teachers Retirement System. STRS predates Social Security having been formed in 1920. When Social Security was founded in the 1930's, Ohio's public employees, like government employees in other states, were specifically excluded from participation. Later, when the federal government gave states the option of having their employees participate, Ohio's public employees elected to remain independent. Today we find new school district employees forced to contribute to MediCare while they will likely never receive a benefit from this program due to the excellent health benefits provided by STRS. Further, under current law, the receipt of MediCare part A is tied to the receipt of a Social Security check. The anti-windfall provision of legislation adopted in 1983 reduces, by as much as 50 percent, the Social Security benefit a public school administrator might otherwise be eligible to receive as a result of his/her work in the private sector. Finally this same legislation eliminated the ability of an STRS benefit recipient to also receive a Social Security spousal benefit--a benefit available to others even if they never worked and never contributed to Social Security.

Unlike Social Security, which funds the benefits of retirees with the contributions of current workers, the State Teachers Retirement System is a reserve funded program. In other words, STRS participants fund their own future benefits through a combination of their own contributions (currently equal to 9.3 percent of salary), contributions made by the employer (currently equal to 14 percent of salary), and the earnings generated by investing these contributions. Social Security currently provides a maximum benefit of $13,680 per year. This assumes that the individual contributed the maximum amount each year throughout their working life and is retiring at the normal retirement age of 65. STRS benefits are determined by the individual's years of service and the average of the individual's three highest pay years. After 30 years of service, the STRS benefit would be equal to 63 percent of the final average salary, after 45 years of service the benefit is equal to 100 percent of FAS. While an individual can not begin receiving even a reduced Social Security benefit until age 62, an individual may begin receiving full STRS benefits at any age with 30 years of service, at age 55 with 25 years of service and at age 60 with less than 25 years of service. Like Social Security, STRS offers income protection to families of deceased or disabled participants. As you might expect, however, these benefits are superior to those offered by Social Security. Finally, like Social Security, the State Teachers Retirement System provides participants with a cost of living adjustment to offset the effects of inflation.

Mandatory participation in the Social Security System by Ohio's public school employees will force a reduction of school district discretionary funds and/or a move to reduce contributions by both employer and employee to STRS. If the former were to occur there would be an adverse impact on the instructional supplies and materials available to teachers and students. The latter would mean a reduction in the funds available to STRS for investment purposes which would eventually result in a reduction in benefits since approximately 65 percent of benefit funds are generated by investments. It is unlikely that the Social Security benefit would offset this loss. It should be noted that at the present time STRS has over $26 billion invested in the United States Economy.

Restoring the long-term solvency of Social Security is the goal of each of the sponsors of the various proposals currently being reviewed. The Ohio Association of Elementary School Administrators does not believe that extending participation to public school employees will

achieve this goal. In the short run, additional revenues will be generated. Long term, however, these "non participants" will become beneficiaries and their participation will, at best, be neutral to the system's long term financial health.

The Ohio Association of Elementary School Administrators does not believe that extending Social Security participation to Ohio's public employees is in the best interest of the employees, Ohio's public school students, the businesses and corporations in which STRS has invested, or Social Security. We, therefore, urge the Committee to give more consideration to those proposals that would solve the long-term stability problem without extending the umbrella of participation.

Respectfully submitted,
Fred Fastenau, Asst. Executive Director
Ohio Association of Elementary School Administrators
750 Brooksedge Boulevard, Suite 103
Westerville, Ohio 43081-4966

STATEMENT FOR THE RECORD
BY
MICHAEL BILLIRAKIS, PRESIDENT
THE OHIO EDUCATION ASSOCIATION
ON
H.R. 4245
THE SOCIAL SECURITY LONG-RANGE SOLVENCY ACT OF 1994 BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
U.S. HOUSE OF REPRESENTATIVES
HEARING DATE: SEPTEMBER 27, 1994

The Ohio Education Association is concerned with a provision contained in H.R.4245 that would require Social Security participation by all state and local government employees hired after mandating legislation became effective.

We believe the mandatory participation provision will not fulfill its intended purpose of improving the long-term solvency of the Social Security system because the long term cost of benefits such persons receive would in all likelihood equal or exceed the additional Social Security taxes received from public employees in Ohio.

Ohio has a long history, predating Social Security, of providing retirement security and family income protection to state and local public employees. When Social Security was initiated in the mid-1930s Ohio public employees were not permitted to participate. Later, when states were given the option of joining Social Security, Ohio voted to remain independent. There was no need to help Ohio public servants. The Ohio public retirement systems were and are stable and working well.

Mandatory federal Social Security coverage would hurt, rather than help, Ohio public employees. All Ohio public employees are covered by a public retirement system. Unlike Social Security where current workers are supporting retirees, the Ohio public employees retirement systems are reserve-funded. Ohio school employees fund their own future benefits. These systems are not dependent on government appropriations but are funded entirely by member and employer contributions and interest earnings.

It is also mistaken to believe that because only new hires would be covered under HR4245, existing employees would not be adversely affected. Faced with the cost of Social Security, it is almost certain that Ohio would begin to adjust the existing public pension plans and perhaps provide only Social Security for future workers. The pool of money available to invest and fund current benefits would shrink over time. There would be no infusion of new members with higher salaries. Both of these factors would materially harm the long term stability of the present retirement systems.

Ohio public employees do not receive any windfall from Social Security because of other covered employment. The anti-windfall provision adopted by Congress in 1983, provides adjustments to benefits to take account of the years public employees receiving Social Security work outside the Social Security system.

More than 1,000,000 Ohioans are depending on the Ohio public retirement systems for their retirement security. They depend on Congress not to threaten that security by misguidedly damaging our system in an effort to bail out Social Security.

The Ohio retirement systems predate Social Security and have followed the interstate compact of voluntary affiliation established by law 43 years ago. We ask that Congress continue to honor that commitment.

Ohio School Boards Association

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October 4, 1994

Ms. Janice Mays
Chief Counsel and Staff Director
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Dear Ms. Mays:

The Honorable Andy Jacobs, Jr., chairman of the subcommittee on social security of the House Ways and Means Committee, recently asked interested persons to comment on several bills pending in his subcommittee. This letter is a response to his request.

As a representative of 735 city, county, local, village and joint vocational school boards in the state of Ohio, I am writing to express deep concern over the provision in HR 4245 that would mandate Social Security participation for all public employees.

The cost of this provision would be utterly staggering to Ohio's public schools. None of our employees currently pay the 6.2 percent Social Security tax; roughly 50 percent of our current employees pay the 1.45 percent Medicare tax.

Based on a total school employee payroll of approximately $6.136 billion for fiscal year 1994, the annual cost of the Social Security tax, if imposed on all school employees, would be about $380 million. The cost of the Medicare tax, if imposed on one-half of the public school work force, would be about $44.5 million.

The public schools of Ohio cannot afford $424 million in new annual financial obligations! We respectfully request the subcommittee to eliminate any provision of HR 4245 or any other proposal that would impose this tax on Ohio's public school districts.

Thank you for your consideration.

Sincerely,

Douglas T. Putnam

Douglas T. Putnam
Deputy Director of Legislative Services

serving the public school leadership team

SEPTEMBER 27, 1994

STATEMENT OF OPPOSE

My name is Robert J. Scott. I am Secretary/Treasurer of OPPOSE. OPPOSE is a Colorado Corporation formed by teachers, fire fighters, police officers, and other state and local government employees who have elected not to join the Social Security/Medicare system. The purpose of our organization is to assure the continued financial integrity of our members' retirement and health insurance plans by resisting efforts to mandate Social Security or Medicare coverage of public employees. Our members are found in Alaska, California, Colorado, Illinois, Kentucky, Louisiana, Massachusetts, Minnesota, Nevada, Ohio and Texas. With respect to the issue of mandatory Social Security and Medicare coverage, the interests of OPPOSE are identical to those of the approximately five million public employees throughout the nation who remain outside the Social Security system.

BACKGROUND

For many years after the Social Security system was created, state and local government employees were not allowed to participate in the system. Beginning in the 1950s, state and local employers could elect to have their employees covered. Governments which elected in were also permitted to opt out again, after notification of their intent to do so and the expiration of a two year waiting period.

This was the law for about three decades until, in 1983, there was a major revision of the Social Security and Medicare laws, triggered primarily by a concern about the long term solvency of these two trust funds. Congress decided not to require public employees who were outside the system to be covered, but did end the opt out for public employers who had chosen to be covered. An "anti-windfall" rule was adopted, to ensure that public employees who were covered by Social Security and a public plan did not receive excess credit for Social Security purposes. In 1986, as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), Congress determined to require participation in the Medicare system on a "new hires" basis, but chose to leave public employee retirement plans in place, and did not change the law with respect to Social Security. Today, about one-third of all state and local government employees, or slightly more than five million people, are outside the Social Security system because they are covered by public retirement plans.

BACKGROUND OF THIS HEARING

There is no serious question about the soundness of the Social Security System over the next twenty to twenty-five years. The most current estimates suggest that income from Old Age, Survivors and Disability Insurance ("OASDI") taxes will exceed OASDI expenditures until the year 2013, and that OASDi taxes, plus reasonable interest earnings on those taxes will exceed OASDI payments through the year 2018. OASDI "Trust Fund" reserves will continue to fund benefits until the 2029. After that time, Social Security, viewed in isolation from all other federal programs, is projected to be in deficit.

Reasonable people differ about the date after which serious trouble really begins for the Social Security System. Although nominally established like a funded pension system, in practice,

Social Security Trust Fund surpluses are used to reduce operating deficits in other parts of the federal budget. There is an obligation for the Treasury to repay these "borrowings" from Social Security, but the federal government will not be able to repay these borrowings when the time comes, except by creating surpluses in other parts of its budget, or by printing money.

In this sense, at least, it does not matter very much if the Social Security Trust Fund is in a state of surplus. When Social Security outlays begin to exceed Social Security revenues, an additional burden will be placed on an already strained federal budget, as Social Security becomes a net importer of general federal revenues. On the other hand, if general federal revenues are in a healthy posture (admittedly an unlikely prospect), a Social Security deficit could, theoretically, be little more than an accounting inconvenience.

This is not to suggest that the worrisome mid-term Social Security projections do not matter. These projections do matter because they indicate that we are currently promising to future Social Security recipients substantially more than we will comfortably be able to pay.

In response to these concerns, a number of bills have been introduced in 103rd Congress. These include, H. R. 4245, by Chairman Rostenkowski, H.R. 4275 by Chairman Pickle, and a package of bills by Congressman Penny and Congresswoman Margolies-Mezvinsky. The Congressional Budget Office ("CBO") has also submitted a report, dated September 1994, entitled, "Reducing Entitlement Spending." Another hearing will be held before this Committee on October 4, 1994, on the subject of whether gains can be made by changing the ways in which Social Security Trust Funds are managed and invested.

The remedies proposed are extraordinarily diverse and, for the most part, highly controversial. There are suggestions to increase taxes on Social Security benefits, means test benefits to a greater or lesser extent, modify cost-of-living-adjustments ("COLA"), increase the normal retirement age, increase payroll taxes, as well as other ideas.

OPPOSE is concerned with only one of the proposals, contained in H.R. 4245, with a more or less immediate effective date, and in H.R. 4275, with a delayed effective date, to mandate the coverage of state and local government employees under Social Security. This would be done in both bills on a new hires basis. Importantly, neither author appears to suggest that mandatory coverage will have anything other than a trivial effect on the solvency of the Social Security System. Instead, the proposals appear to offered in order to achieve the somewhat less pragmatic goal of making Social Security more nearly "universal."

MANDATORY SOCIAL SECURITY COVERAGE SHOULD NOT BE ADOPTED

I. There is a need for universal retirement security, but that need does not necessarily have to be met through Social Security.

Today it seems self evident that the elderly should receive a measure of economic security and the personal dignity which accompanies that security. Federal entitlements programs, especially Social Security and Medicare, have helped to achieve this security for many Americans.

But Social Security is merely a means to an end---retirement security---and there is no reason why Social Security should be viewed as an end in itself if other measures are available to achieve the same overriding goal. In recent years, some anxiety has been expressed that American workers may be too dependent on Social Security. There is a fear that Social Security, by itself, may not be enough to provide retirement security. Yet the rate of

private savings for Americans is at a dangerously low level.

Most public retirement plans are primarily, or entirely, defined benefit plans. These plans guarantee the employee and his or her spouse a set level of income for life. Plan benefits often are indexed for inflation, or state legislatures provide indexing through periodic legislation, particularly where the investment performance of the fund is good. Recently there has been increasing public recognition that defined benefit plans are, in at least one important respect, superior to defined contribution plans in terms of protecting employees after they retire. The advantage lies in the measure of security which the employee and his or her spouse receive. In defined contribution plans, it is the employee who bears the investment risk with respect to contributions made on his or her behalf. This can work out well for some, but disastrously for others.

For most public employees, retirement accounts represent a substantial part of their life time savings. In 1989, the median American household had a net worth of approximately $42,000, much of this tied up in the equity value of their home. Forty-two thousand dollars is not a large cushion. For middle income public employees, the additional security provided by their public retirement plan makes possible a comfortable, reasonably secure life.

Public sector plans provide their employees with a high degree of safety. There is also no exposure for the federal government in connection with public plans, because public plans are not insured by the Pension Benefit Guaranty Corporation.

There is every reason to believe that mandatory coverage, imposed at this late date, would impair, or possibly even destroy, retirement security for millions of public employees. State and local government plans work well for employees because returns on investment allow the employees to receive substantially greater benefits than would be possible under a pay-as-you-go approach. Although some people would argue that the Social Security Trust Fund is also invested, these monies are invested solely in government accounts, and the benefits are secured by the future taxing power of the United States government.

To the extent that mandatory Social Security would undercut the ability of state and local governments to provide expected benefits, this would amount to a breach of faith, because many public employees accept less than competitive wages in part because they know the public retirement plan will take care of them later.

CBO recognizes this point, at least indirectly, in its report on "Reducing Entitlement Spending" (page 18), where, in the context of discussing the inappropriateness of lumping federal pensions in with other entitlement programs, the report states:

"Supporters of federal workers and retirees point out that these programs were integral parts of the employment contract between the federal government and its employees and therefore constitute earned benefits. Cutting them would probably hurt the government's reputation as an employer. Annual surveys comparing government and private-sector wages indicate that federal workers may be accepting lower cash wages in exchange for better retirement benefits in deciding to work for the government. In essence, these workers pay for their more generous retirement benefits by accepting lower wages during their working years. Moreover, as some observers maintain, cutting benefits promised to current annuitants may prompt forward-looking workers to demand higher compensation now to offset the increased uncertainty of their deferred benefits." (Footnote omitted.)

If states were forced, by mandatory Social Security, to raise

current wages of employees in order to retain them, the increased state taxes required to pay these wages would, of course, be tax deductible for citizens of the state, thus reducing current federal revenues to some extent.

In 1990, Congress enacted a law requiring that all public employees not covered by a state or local government retirement plan meeting specified standards must be covered by Social Security. That provision, adopted as part of the Omnibus Budget Reconciliation Act of 1990 (the "1990 Act"), ensures that all public employees will be covered either under Social Security or under a public retirement plan which provides comparable benefits.

Regulations issued under that law require that the state or local plan must provide a minimum benefit, generally equivalent to the benefit provided by Social Security. Special protections, having the general effect of increasing portability, are provided for certain categories of workers, such as temporary, seasonal and part-time workers. Still other regulations protect workers from losing benefits.

For the record, it might also be noted that state and local government employees do not receive any unfair advantage by remaining outside of the Social Security system for most, or part, of their career. In 1983, as part of the overall Social Security reforms enacted in that year, Congress adopted an anti-windfall rule, which has the general effect of reducing any Social Security benefit that the employee might otherwise be entitled to in accordance with a formula based on the period of time during which the employee was not covered by Social Security. This adjustment is made because Social Security is bottom weighted---that is, Social Security tends to provide relatively high benefits for workers who have relatively low average career earnings.

If government workers want to participate in the Social Security system they can, by arranging for their government employer to contract into the system. But the decision should be made by the people affected---state and local government employees.

II. <u>Mandatory Social Security coverage of middle class public employees now outside of the Social Security system will do nothing to improve the fiscal soundness of the system.</u>

For the next ten to fifteen years, the retirement portion of the OASDI Trust Fund is in good shape. Responsible analysts have expressed substantial concern about the out years, although there is some disagreement as to exactly when the really serious problems will begin.

Most people agree that it would be wise to take action in the near future to bring the OASDI Fund into long term balance. The reasoning is that the sooner we take action, the less painful the measures will have to be. Politically, however, this means a trade of short term pain for long term gain---always a difficult proposition.

In order to understand what we need to do to correct our long term problems, it is necessary to understand why we are in our present fix. The primary reason appears to be that we are trying to do two contradictory things with OASDI taxes.

Current OASDI taxes are higher than they need to be to fund current OASDI benefits. The theory is that we are building up a trust fund to pay future benefits.

This is perfectly sound as a theory, but the theory does not correspond with what we are actually doing with OASDI revenues. These revenues are being used to pay the current operating expenses of the United States Government.

Of course, the OASDI Trust Fund receives promises to pay from the federal government, but these promises are secured only by the future taxing power of the government. This means that at some point in the future, when the ratio of taxes to benefits is less favorable than it is today, there will be no assets to draw down in order to make up the difference.

Mandatory Social Security for government employees will not solve any of these problems. In the short run, taxes from the newly covered government workers would exceed benefits paid to those workers. But OASDI does not have a short term problem.

Fifteen, twenty and twenty-five years out, the newly covered government employees would be entitled to the same benefits as all other covered workers. To the extent that then current OASDI taxes will no longer be adequate to pay then current benefits, it should be obvious that adding more people to the system will make matters worse, not better.

In addition, annuities from public pension plans are fully taxable to the extent those benefits exceed the beneficiary's own after tax contributions to his or her retirement plan. Under present law, Social Security benefits are not taxable to most recipients, and most retired public employees would fall below the income threshold for taxation of Social Security benefits. The resulting loss to the general revenue fund may easily offset any very modest gain made by the Social Security Trust Fund.

III. Mandatory Social Security would further handicap the ability of state and local governments to provide needed services. Those who are most dependent on government services as a safety net would be most affected.

The effects of mandatory Social Security coverage on state and local governments would be crushing. Many states, including states which would be among the most adversely affected by mandatory Social Security coverage, are already reeling under federal mandates which they cannot afford, or which must be financed by sacrificing other, much needed, programs.

In Illinois, the state legislature worked much of 1993 to prevent a total shut down of the Chicago school system which must, by law, have a balanced budget. In Michigan, it remained in doubt for many months whether, or how, the state school system would be funded beginning with the 1994 school year.

A July 30, 1993 article in The Washington Post described some of the problems which have been created for state and local governments by unfunded federal mandates. California, for example, was forced to reduce funding for primary and secondary public education by 15.6 percent.

According to reports recently issued by organizations of state and local governments, unfunded federal mandates or, more generally, actions of the federal government to push costs downward to the states, are the number one problem for state and local officials. [See The State of America's Cities, January 1994, published by The National League of Cities; The Fiscal Survey of the States, October 1993, published by the National Governor's Association and the National Association of State Budget Officers.]

Largely because of federal cost shifting, thirty-two states increased tuition for higher education. Twelve states imposed new Medicaid restrictions. Maryland, Montana, Nevada, Ohio, and South Carolina had budget cuts which exceeded three percent of their fiscal 1993 general fund expenditures.

Even if mandatory Social Security were imposed on a "new hires" basis, it would have serious short term effects, and long term effects that can fairly be described as crippling. (See

attached Tables B and C for a state-by-state cost analysis.) For example, California would have a first year cost of over $250 million, and the long term cost, when the program was fully phased in, would approach $3 billion a year. Texas, Illinois, Ohio, and Massachusetts would face similar overwhelming burdens. Even states like Washington, Virginia, and New York, which are not commonly thought of as non-Social Security states, would find themselves with tens of thousands of affected employees, and over $100 million in costs as the program phased in.

IV. A mandatory Social Security tax would be regressive.

Family income for those in the middle income brackets has been virtually stagnant since 1977. A mandatory Social Security tax, imposed now on middle class citizens who benefit from solid retirement security plans, would be devastatingly regressive. Nationwide, the average earnings of a full time state or local public employee are approximately $29,500; the Social Security tax on this amount (6.2 percent) would exceed $1,800. (See Table A for a state by state analysis.)

Most public employees fall in the second and third quintiles of income. These are families whose average income ranges from about $20,000 per year to about $32,000 per year. Studies based upon CBO data and prepared by the U.S. House of Representatives Ways and Means Committee staff indicate that many of these families actually lost ground during the period 1977 through 1989 or, at best, have progressed only minimally. For example, the second quintile, those between the 20th and 40th percentiles in terms of average family income, actually lost about 1.7 percent in after-tax income, measured in constant dollars, during this thirteen year period. Those in the third quintile, between the 40th and 60th percentiles in average family income, fared somewhat better, but still realized income growth of less than half a percent per year, uncompounded, throughout this period. Federal income tax rates, as a percentage of pretax income, actually increased slightly for the fourth quintile income group. (For the third quintile income group federal tax rates were essentially unchanged.) People at this level of income should not be called upon to pay additional taxes.

[THE ATTACHMENTS TO THIS STATEMENT ARE BEING RETAINED IN THE COMMITTEE FILES.]

STATEMENT FOR THE RECORD
BY ROBERT B. GRAY, C.E.B.S.
DIRECTOR, GOVERNMENT RELATIONS
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO
ON H.R. 4245 AND H.R.4275
BEFORE THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
U.S. HOUSE OF REPRESENTATIVES
HEARING DATE: SEPTEMBER 27, 1994

The Public Employees' Retirement Association of Colorado (PERA) has a serious concern with a provision contained in both H.R. 4245 and H.R. 4275 to require all state and local government employees hired after a date certain to be covered by the Social Security system.

Most of the provisions in these two bills affect either the taxes or the benefits of those covered under Social Security beginning at some point in the future. We think it is fairer to follow that approach than to injure workers employed by state and local governments who have not been part of the Social Security system for decades, if ever.

Mandatory federal Social Security is not needed by Colorado public employees or the other five million public employees nationwide who are not covered by Social Security. On the contrary, it would be very harmful to them. The 140,000 public employees covered by Colorado PERA and the 40,000 retirees and survivors receiving benefits from PERA are covered by a comprehensive plan. While not a "cadillac" plan, PERA provides good retirement, survivor and disability benefits. Among other features, members are vested after five years service, and members who terminate with less than five years service receive a refund of their own contributions with interest. The plan has other useful portability benefits. Retirees and survivors receive an annual cost of living adjustment and may enroll in subsidized group health care coverage.

Congress and the President included in OBRA 1990 a provision requiring all state and local government employees to be covered by a state or local retirement plan or by Social Security, effective July 1, 1991. Colorado PERA covers its members under a plan providing benefits which exceed the minimum levels required pursuant to regulations implementing that act. States already have the option to join Social Security; Colorado and several others have decided that they and their employees are better off under plans they have created.

Colorado PERA was started in 1931. PERA, unlike Social Security, is an actuarially sound retirement system. Current contribution rates are sufficient to fund long-term liabilities, and assets equal nearly 25 times annual benefits.

PERA members and Colorado state and local governments benefit from the investment of over $14 billion in trust fund assets in a diversified portfolio including stocks and bonds of large and small companies, venture capital investments, real estate, and U.S. treasury securities. A solid investment return has helped to maintain the security of benefits, and contribution rates have remained relatively low. Members contribute eight percent of salary and most employers contribute 11.6 percent of salary.

Congress had to increase the FICA tax and cut back benefit provisions in 1983 to rescue Social Security from insolvency. That might have to be done again in the 21st century. Public employees covered under their own plans should not be penalized because of the erroneous belief that mandating Social Security for state and local workers would help Social Security. Forcing all state and local workers into Social Security would increase taxes paid to the Social Security trust fund, but it would also increase benefit obligations to these workers. The payments to newly-covered state and local workers would become due around 2020 to 2030, just when Social Security is projected to have serious cash flow problems.

Current state and local employees, as well as new hires, would be harmed by mandatory Social Security for public employees. The dollars available for investment by PERA would shrink as "new hires" are covered by Social Security. This could well require PERA contribution rates to increase for current employees and their employers in order to maintain the fund's actuarial soundness. At best, future benefit enhancements or contribution rate reductions would become impossible.

State and local workers not covered by Social Security receive no windfall in the calculation of the amount of any Social Security benefit they may earn from private sector employment. Nor do state and local workers whose spouses are covered by Social Security receive unreasonable benefits from Social Security. In many cases, the spousal offset eliminates any Social Security benefit to the spouse of a covered worker.

In summary, PERA has been providing solid protection for Colorado public employees for over 60 years. Colorado public employers have had the option of joining Social Security since 1951, and those employers and their employees have chosen instead to remain with a comprehensive plan of benefits which operates with reasonable contribution rates and causes no harm to Social Security. Covering new hires under Social Security would not shore up that system, and would harm the pension plans of five million public employees nationwide.

Congress should not break its long-standing agreement for voluntary Social Security coverage by state and local employees.

STATEMENT FOR THE RECORD
BY
HERBERT L. DYER, EXECUTIVE DIRECTOR
THE STATE TEACHERS RETIREMENT SYSTEM OF OHIO
ON
H.R. 4245
THE SOCIAL SECURITY LONG-RANGE SOLVENCY ACT OF 1994
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
U. S. HOUSE OF REPRESENTATIVES
HEARING DATE: SEPTEMBER 27, 1994

The State Teachers Retirement System of Ohio is concerned with a provision contained in H.R.4245 that would require Social Security participation by all state and local government employees hired after mandating legislation became effective.

We believe the mandatory participation provision will not fulfill its intended purpose of improving the long-term solvency of the Social Security system because the long term cost of benefits such persons receive would in all likelihood equal or exceed the additional Social Security taxes received from public employees in Ohio.

Ohio has a long history, predating Social Security, of providing retirement security and family income protection to state and local public employees. When Social Security was initiated in the mid-1930s Ohio public employees were not permitted to participate. Later, when states were given the option of joining Social Security, Ohio voted to remain independent. There was no need to help Ohio public servants. The Ohio public retirement systems were and are stable and working well.

Mandatory federal Social Security coverage would hurt, rather than help, Ohio public employees. All Ohio public employees are covered by a public retirement system. Unlike Social Security where current workers are supporting retirees, the Ohio STRS is reserve-funded. Ohio teachers fund their own future benefits. Today STRS is 76% funded. On a comparable basis, federal Social Security is 3% funded. STRS is not dependent on government appropriations but is funded entirely by member and employer contributions and interest earnings. Interest earnings provide 62% of the necessary funds.

It is also mistaken to believe that because only new hires would be covered under HR 4245, existing employees would not be adversely affected. Faced with the cost of Social Security, it is almost certain that Ohio would begin to adjust the existing public pension plans and perhaps provide only Social Security for future workers. The pool of money available to invest and fund current benefits would shrink over time. There would be no infusion of new members with higher salaries. Both of these factors would materially harm the long term stability of the present STRS.

The State Teachers Retirement System currently has over $28 billion invested in Ohio businesses and the national economy. If future employees were mandated to join Social Security, much of this money gradually would be removed from the investment market.

Ohio public employees do not receive any windfall from Social Security because of other covered employment. The anti-windfall provision adopted by Congress in 1983, provides adjustments to benefits to take account of the years public employees receiving Social Security work outside the Social Security system.

More than 1,000,000 Ohioans are depending on the Ohio public retirement systems for their retirement security. They depend on Congress not to threaten that security by misguidedly damaging our system in an effort to bail out Social Security.

Ohio retirement sytems and others like ours throughout the nation predate Social Security and have followed the interstate compact of voluntary affiliation established by law 43 years ago. We ask that Congress continue to honor that commitment.

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